



Date: 6 November 2015
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To: Members of the ESPO Finance and Audit Subcommittee

Dear Member,

ESPO FINANCE AND AUDIT SUBCOMMITTEE

A meeting of the Finance and Audit Subcommittee will be held at on Monday, 16 November 2015 at 11.00 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,

Ben Holihead
for Consortium Secretary

AGENDA

<u>Item</u>		<u>Pages</u>
1.	Minutes of the meeting held on 8 September 2015.	(Pages 3 - 6)
2.	Declarations of interest in respect of items on the agenda.	
3.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	



4. MTFFS Monitoring for the First Six Months of 2015-16. (Pages 7 - 18)

Joint Report of the Director and Consortium Treasurer.

5. Review of the basis for calculating the Dividend Distribution. (Pages 19 - 24)

Joint report of the Director and Consortium Treasurer.

6. Impact of the National Living Wage. (Pages 25 - 28)

Joint Report of the Director and Consortium Treasurer.

7. Quarterly Progress against the Internal Audit Plan. (Pages 29 - 40)

Report of the Consortium Treasurer.

8. Review of the Frequency of Finance and Audit Subcommittee meetings. (Pages 41 - 44)

Report of the Consortium Secretary.

9. Date of future meetings.

Future meetings of the Finance and Audit Subcommittee will take place on the following dates:

22 February – 11.00am at County Hall, Glenfield.

6 June - 11.00am at County Hall, Glenfield.

5 September - 11.00am at County Hall, Glenfield.

14 November - 11.00am at County Hall, Glenfield.

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

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

11. Strategic Discussion Document to Inform MTFFS Assumptions. (Pages 45 - 56)

Joint Report of the Director and Consortium Treasurer.

Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Tuesday, 8 September 2015.

PRESENT

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

Leicestershire County Council
Dr. R. K. A. Feltham CC

Lincolnshire County Council
Mrs. S. Rawlins CC

13. Minutes of the previous meeting.

The minutes of the meeting held on 9 June 2015 were taken as read, confirmed and signed.

14. Urgent items.

There were no urgent items for consideration.

15. 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.

16. Draft Statement of Accounts 2014/15 and Annual Governance Statement.

The Subcommittee received a report outlining the draft Statement of Accounts 2014/15 and the Annual Governance Statement. A copy of the report, marked 'Agenda Item 4', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). ESPO's external auditors, PricewaterhouseCoopers (PwC), had commenced the external audit of accounts and were not expected to make any adjustments. However they had recommended a minor change to ESPO's accounting policies in relation to rebates to reflect the current practices at ESPO. As had been previously reported to members, PwC had paid significant attention to rebates during the audit following issues which had arisen at Tesco which had received national attention;
- (ii). It was clarified that unusable reserves were reserves which could not be used or distributed in cash terms such as the valuation of the ESPO building. Intangible assets were those such as the software used by ESPO;
- (iii). In the Annual Governance Statement, regarding progress against key improvements required during 2014-15, the Internal Audit Charter was completed but the Quality Assurance and Improvement Programme was still in development

and had been carried forward for monitoring during 2015-16. Further work was being undertaken on other areas of governance such as business continuity. Owing to the success of the use of relief warehouse during the peak period, officers were hoping to incorporate the use of the relief warehouse into its business continuity plans. It was clarified by officers that the Servicing Authority was responsible for the monitoring of business continuity plans, while ESPO was responsible for writing the plans;

- (iv). Succession planning is an ongoing planning risk for any organisation including ESPO. The need to ensure that the workforce covered all key areas and had the required skills at all levels was important, which was monitored on an ongoing basis. It was also necessary to ensure that skills and experience were developed from within as well as having the ability to secure specialist skills externally when required;
- (v). At present the number of Freedom of Information requests received by ESPO had not been a burden on staff, with approximately ten requests made per month. On some occasions it had been necessary to refuse a request due to the commercial sensitivity of the information requested;
- (vi). Members thanked officers for amending the Statement of Accounts following on from the decision of the Management Committee to increase the 2014/15 surplus distributed to member authorities, and welcomed the contents of the draft Statement of Accounts 2014/15.

RESOLVED:

- a) That the contents of the report be noted;
- b) That the draft Statement of Accounts 2014/15 and Annual Governance Statement be recommended for approval at the Management Committee.

17. MTFS Monitoring for the First Four Months of 2015/16.

The Subcommittee received a report monitoring the Medium Term Financial Strategy against the first four months of trading in the 2015/16 financial year. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). As referenced in 16 (iii) above, the use of a relief warehouse during the peak period had allowed ESPO to quickly process deliveries to customers and allow for the warehouse to recover much more quickly than the delays experienced in the previous year. Subsequently the relief warehouse had been a significant success for ESPO particularly with regard to customer satisfaction;
- (ii). The living wage announced in the Budget would have a significant impact on ESPO. In addition to the direct costs incurred from paying staff to meet the living wage, there would also be costs arising from the reconfiguration of current pay grades at ESPO. It was also unknown how much of an impact it would have should suppliers decide to spread the costs to consumers. Officers from ESPO and the Servicing Authority would assess the possible impact arising from

increased wages with the hope to absorb the costs within the medium term financial strategy;

- (iii). Arising from comments previously raised by members regarding sickness absence, an interim target of nine days per FTE had been set in an effort to achieve the overall target of 7.5 days per FTE. However there was no quick fix for reducing sickness absence and particularly long-term sicknesses which needed to be handled sensitively.

RESOLVED:

That the contents of the report be noted.

18. Quarterly Progress Against the Internal Audit Annual Plan.

The Subcommittee received a report outlining the first quarter progress against the Internal Audit Plan 2015/16. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

As was standard practice for first quarter reports, the report mainly focused on the completion of outstanding audit work carried over from the previous financial year but explained there was much 2015-16 work in train.

RESOLVED:

That the contents of the report be noted.

19. Date of next meeting.

Members considered whether it was necessary for the Subcommittee to continue meeting four times per year. It was subsequently requested that a report be referred to a meeting of the Management Committee to reassess the number of meetings held by the Subcommittee.

RESOLVED:

- a) It was noted that the next meeting of the Subcommittee would be held on Monday 16 November at 11.00am at County Hall, Glenfield;
- b) That a report be referred to a future meeting of the Management Committee assessing the need for four meetings of the Subcommittee per year.

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ESPO FINANCE AND AUDIT SUB COMMITTEE – 16 NOVEMBER 2015

MTFS MONITORING FOR THE FIRST 6 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 September 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 6 Months of 2015-16 compared to the MTFS.

Sales

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	24,080.2		25,203.8		24,112.2	
DIRECT	9,870.6		9,913.1		10,235.5	
GAS	8,489.8		7,771.0		8,408.5	
CATALOGUE ADVERTISING	797.6		780.0		736.2	
REBATE INCOME	2,076.8		1,703.5		1,800.3	
MISCELLANEOUS INCOME	32.3		75.0		31.0	
TOTAL SALES	45,347.3		45,446.3		45,323.7	

3. Total sales at £45.3m are just behind of budget of £45.4m principally down to lower store sales which are showing a negative variance of £1.1m due to lower non education sales. This has been offset by higher gas and rebates income. A detailed analysis of education and non-education sales by area has been circulated separately.

4. As highlighted in the September report to the sub-committee the positive variance to last year for store sales was down to timing of the delivery of the peak sales period. Essentially peak was delivered earlier this year and that effect has now essentially spun out. Store sales are now fractionally behind last year principally due to lower non education spending. Lead indicators suggest that this will continue for the next few months but plans are in place to address this in the final quarter of the year.
5. Direct sales are in line with budget helped by a large MOD order for white goods. Compared to the prior year there is no £0.3m adverse variance as there was the one off impact of the free school meals initiative last year.
6. Rebates are £0.3m ahead of budget and £0.2m 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 ahead of the prior year.

Margin

YEAR TO DATE						
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
STORES	6,003.1	33.2%	6,565.8	35.2%	5,995.4	33.1%
DIRECT	1,206.8	13.9%	1,140.4	13.0%	1,192.9	13.2%
GAS	159.7	1.9%	146.2	1.9%	98.1	1.2%
CATALOGUE ADVERTISING	797.6		780.0		736.2	
REBATE INCOME	2,076.8		1,703.5		1,800.3	
MISCELLANEOUS INCOME	32.3		75.0		31.0	
TOTAL MARGIN	10,276.4		10,410.9		9,854.0	

8. Overall margin is £0.1m behind budget due to higher discounting over the peak period in store sales as part of the school holiday offer and lower sales. This has been offset by higher rebates and higher percentage margin on directs.
9. The impact of the additional gas sales is the increased margin of £14k.

Expenditure

YEAR TO DATE						
ACTUAL		BUDGET		PRIOR YEAR		
£000	%	£000	%	£000	%	
EXPENDITURE						
EMPLOYEES						
Staff	4,954.6	5,350.4	4,906.7			
Agency/Contract	682.1	514.2	783.5			
Total	5,636.7	5,864.5	5,690.2			
OVERHEAD EXPENSES						
Transport	1,041.2	962.4	1,084.9			
Warehouse	888.8	936.2	909.3			
Commercial	735.8	765.3	697.6			
	2,665.9	2,664.0	2,691.8			
Finance and IT	408.2	452.7	415.0			
Directorate	36.2	18.1	60.3			
	444.4	470.9	475.3			
Total	3,110.3	3,134.8	3,167.1			
TOTAL EXPENDITURE	8,747.0	8,999.3	8,857.3	19.3%	19.8%	

10. Total expenditure is £0.3 under budget principally driven by higher agency costs offset by lower staff costs. The lower staff costs are principally down to reduced FTE's and managing our vacancy rates.

11. Our overheads as a percentage of sales ratio is 19.3% which is 0.5% better than budget and 0.2% ahead of last year.

12. Agency costs are closely managed but are impacted by vacancies and sickness levels.

FTE numbers as at Sept 2015 are as follows

YEAR TO DATE		
ACTUAL	BUDGET	PRIOR YEAR

EMPLOYEES NUMBERS (Full-time equivalents):




Operations	187	192	198
Commercial	106	124	109
Finance, IT and Directorate	42	45	41
TOTAL EMPLOYEES	336	362	348

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 12.00 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 transport costs are £80k 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.

Surplus

YEAR TO DATE		
ACTUAL	BUDGET	PRIOR YEAR

£000 % £000 % £000 %

TRADING SURPLUS	1,529.3  3.4%	1,411.6  3.1%	996.7  2.2%
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17. Trading surplus is £0.1m ahead of budget and £0.5m ahead of last year.
18. Following the September mini trading peak a detailed forecast was prepared as part of the draft MTFS discussions covered elsewhere on the agenda. Our trading performance to date suggests that at this point the full year budget surplus of £3.3m will be achieved but there are risks in terms of stores non education sales. To mitigate this close control on overheads will need to be maintained and maximisation of rebate income compared to last year is critical.

Service Line

19. The detailed service line analysis is included in appendix 1 showing performance compared to budget for the Stores, Directs, Energy and Procurement. The central costs have been reallocated to reflect the new LT structure. The key trading period for procurement now starts as there are three peak quarters of rebate income to collect.

Balance Sheet and Cash Flow

20. A detailed balance sheet and cash flow is included in appendix 1.
21. Overall stock levels are £0.1m higher than at last year end and partly down to lower sales.
22. Debtors are £3.1m higher than year-end but this is seasonal reflecting the July peak. Debtor days were 44.0 compared to 48.8 this time last year.
23. Creditors are £1.6m lower than year-end linked to the payment of winter gas creditors.
24. In December 2015 the dividend of £1.5m will be paid to Members.
25. A detailed balanced scorecard is included in appendix 2 for the 6 months to September.

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.

Equalities and Human Rights Implications

28. None

Risk Assessment

29. None identified

Officers to Contact

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Appendices

Appendix 1 - Balance Sheet and Cash Flow
Appendix 2 - Balanced Scorecard

SERVICE LINE INCOME AND EXPENDITURE SUMMARY

Sep-15

ACTUAL	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	24,080	0	0	0	24,080
DIRECT	0	9,871	0	0	9,871
GAS	0	0	8,490	0	8,490
CATALOGUE ADVERTISING	558	239	0	0	798
REBATE INCOME	144	0	378	1,555	2,077
MISCELLANEOUS INCOME	22	0	1	9	32
Total Sales	24,804	10,110	8,869	1,564	45,347
Less Cost of Sales	18,077	8,664	8,330	0	35,071
Surplus on Trading Account	6,727	1,446	539	1,564	10,276
Wages and Salaries	2,108	514	187	1,200	4,010
Agency Costs	650	6	0	13	669
Other Expenses	889	215	18	502	1,625
Transport	1,041	0	0	0	1,041
Operating Surplus	2,038	711	333	-151	2,931
%	8.2%	7.0%	3.8%	-9.7%	6.5%
<u>Contribution to Central Costs</u>					
Finance and IT	394	263	44	175	876
Marketing	0	0	0	0	0
Directorate	165	165	32	170	533
Net Surplus	1,479	283	258	-497	1,522
Check Balance	6.0%	2.8%	2.9%	-31.8%	3.4%

BUDGET	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	25,204	0	0	0	25,204
DIRECT	0	9,913	0	0	9,913
GAS	0	0	7,771	0	7,771
CATALOGUE ADVERTISING	546	234	0	0	780
REBATE INCOME	0	0	211	1,492	1,703
MISCELLANEOUS INCOME	53	0	0	23	75
Total Sales	25,802	10,147	7,982	1,515	45,446
Less Cost of Sales	18,638	8,773	7,625	0	35,035
Surplus on Trading Account	7,164	1,374	357	1,515	10,411
Wages and Salaries	2,257	569	208	1,328	4,361
Agency Costs	466	10	0	23	498
Other Expenses	936	222	24	519	1,702
Transport	962	0	0	0	962
Operating Surplus	2,544	573	125	-354	2,888
%	9.9%	5.7%	1.6%	-23.4%	6.4%
<u>Contribution to Central Costs</u>					
Finance and IT	427	285	47	190	948
Marketing	0	0	0	0	0
Directorate	164	164	32	169	528
Net Surplus	1,953	125	46	-713	1,412
Check Balance	7.6%	1.2%	0.6%	-47.1%	3.1%

ACTUAL V BUDGET VARIANCE	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	-1,124	0	0	0	-1,124
DIRECT	0	-42	0	0	-42
GAS	0	0	7,719	0	7,719
CATALOGUE ADVERTISING	12	5	0	0	18
REBATE INCOME	144	0	167	63	373
MISCELLANEOUS INCOME	-31	0	1	-13	-43
Total Sales	-998	-37	887	50	-99
Less Cost of Sales	-561	-109	705	0	36
Surplus on Trading Account	-437	72	181	50	-135
Wages and Salaries	148	55	21	128	351
Agency Costs	-185	4	0	9	-172
Other Expenses	47	7	6	16	77
Transport	-79	0	0	0	-79
Operating Surplus	-505	137	208	203	43
%					
<u>Contribution to Central Costs</u>					
Finance and IT	32	22	4	14	72
Marketing	0	0	0	0	0
Directorate	-1	-1	0	-1	-5
Net Surplus	-474	158	211	216	111

EASTERN SHIRES PURCHASING ORGANISATION		
CONSOLIDATED MANAGEMENT BALANCE SHEET AS AT		
31st March 2015		Sep-15
£	£	£
10,774,594		10,774,594
5,392,376	5,451,491	
8,172,572	11,279,175	
1,360	560	
1,380,000	1,162,000	
14,946,308		17,893,226
636,884	500,000	
11,504,765	9,119,304	
625,893	1,495,107	
-8,391,469	-5,183,656	5,930,755
<u>10,570,235</u>		<u>11,962,471</u>
8,000,000		8,000,000
<u>13,344,829</u>		<u>14,737,065</u>
11,222,789	12,615,026	
2,122,042	2,122,042	
<u>13,344,831</u>	<u>14,737,068</u>	
	3	
2.18	2.10	
31.9	44.0	
47.7	47.3	

Cash Flow from 01/4/2014 to	Sep-15
Surplus	1,371,083
AFINIMOFs	
Allocations to Maintenance and Equipment Reserves	80,002
Movement in Fixed Assets	0
Movement in Unusable/Earmarked Reserves	(58,846)
Total	<u>1,392,239</u>
Movement in Long Term Borrowings	
Payment of Dividend	
Movement in Long Term Items	<u>0</u>
(Increase)/Decrease in Stock	(59,115)
(Increase)/Decrease in Debtors	(3,106,603)
Increase/(Decrease) in Creditors	(1,653,131)
Movement in Working Capital	<u>(4,818,849)</u>
Total	<u>(3,426,610)</u>
Movement in Cash Balances	<u>(3,426,613)</u>
	(3)

Summarised Balanced Scorecard Sep 15

Financial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Total Sales (inc Gas & Rebates)	£7,094,924	£8,380,568	↓ -15.3%	£45,347,285	↓ -0.2%
Total Gross Margin	£1,725,709	£1,799,295	↓ -4.1%	£10,276,314	↓ -1.3%
Total Expenditure	£1,395,064	£1,554,381	↓ -10.2%	£8,746,653	↓ -2.8%
Surplus	£330,644	£244,914	↑ 35.0%	£1,529,661	↑ 8.4%
Net Profit Margin %	4.66%	2.92%	↑ 1.74pp	3.37%	↑ 0.27pp

Rolling 12 months.....

Net Profit Margin %	2.85%	2.05%	↑ 0.80pp
Asset Turnover	4.1	4.2	↓ -0.1
ROCE	11.74%	8.71%	↑ 3.03pp

Full year up to Aug 15 data....

	No. FTE at Aug 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	340	4,095	12.0	9.0	↓ -3.0

Highlights

Finance & IT

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Proportion of E Orders	19%	20%	↓ -0.68pp	19%	↓ -0.82pp
Proportion of E Invoices	28%	20%	↑ 7.73pp	25%	↑ 5.25pp
Web Sales	£624,543	£666,232	↓ -6.3%	£4,084,337	↑ 20.5%

Commercial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
New Customers	122	80	↑ 42	605	↑ 85
	Target	Q1	Q2	Q3	Q4
Customer Satisfaction Rate	2.4/4	3.15/4	0.0%	0.0%	0.0%
% Renewed on time	90%	93%	0.0%	0.0%	0.0%

Operations

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Lines picked per hour	31	22.5	↑ 9	28	↑ 6
Agency Cost	£90,817	£84,582	↓ -7.4%	£639,665	↓ -45.5%
Calls Abandoned	3.5%	3.0%	↓ -0.46pp	3.0%	↓ -0.00pp

Operations Balanced Scorecard Sep 15

Financial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock Sales	£3,907,826	£4,568,078	↓ -14.5%	£24,045,813	↓ -4.6%
Margin £	£1,061,932	£1,195,923	↓ -11.2%	£6,146,841	↓ -6.4%
Margin %	27.17%	26.18%	↑ 0.99pp	25.56%	↓ -0.49pp
Orders	40,088	43,795	↓ -8.5%	188,831	↓ -9.0%
AOV	£97.48	£93.61	↑ £3.87	£127.34	↑ £11.34
Stock Turnover (weeks)	7.99	8.91	↑ 0.9		

Operational

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Lines Picked (CS only)	235,057	250,251	↓ -6.1%	1,267,437	↓ -7.8%
Warehouse Processing Cost per Order (inc Select, Goods In and Goods Out)				£8.48	
*Transport Cost per Drop				£14.20	
Processing & Transport Cost per Order				£22.68	
Wages & Salaries	£305,220	£315,020	↑ 3.1%	£1,819,585	↑ 7.1%
Agency Cost	£90,817	£84,582	↓ -7.4%	£639,665	↓ -45.5%
Productive Hours worked	7,489			44,745	
Lines picked per hour	31	22.5	↑ 9	28	↑ 6
Error rate	3%	2%	↓ 1.00pp	4%	↓ 2.25pp

Customer

Physical Stock £	Allocated Stock £	Avail Stock £	% Avail
£5,360,748	£238,604	£5,122,135	98.67

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Calls Abandoned	3.5%	3.0%	↓ -0.46pp	3.0%	↓ -0.00pp
FeeFo Feedback	97%	95%	↑ 2.00pp	97%	↑ 1.83pp

Employees

	Actual	Budget /LY	Var	YTD Actual	YTD Var
No. of staff forum meetings	1	1	↑ 0.0	6	↑ 0.0
Accidents	5			17	
Near Misses	0			6	

Full year up to Aug 15 data....

	No. FTE at Aug 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	180	3,222	17.9	9.5	↓ -8.5

* Transport costs include Carrier, Drivers Pay, Agency, Fuel, Repair & Maintenance, Licences, Tyres, Hire & Insurance

Finance & IT Balanced Scorecard Sep 15

Financial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock & Direct Sales	£5,893,320	£6,923,217	↓ -14.9%	£33,923,633	↓ -3.4%
Margin £	£1,313,794	£1,466,868	↓ -10.4%	£7,313,750	↓ -5.1%
Margin %	22.29%	21.19%	↑ 1.11pp	21.56%	↓ -0.39pp
Orders	47,356	51,993	↓ -8.9%	221,537	↓ -8.0%
AOV	£124.45	£124.93	↓ -£0.48	£153.13	↑ £10.70
Stock Turnover (weeks)	7.99	8.91	↑ 0.9		
Debtor Days	44	49	↑ 5		
Creditor Days	47	41	↑ 7		
Finance & IT Costs	£159,981	£163,927	↑ 2.5%	£876,471	↑ 8.1%

Efficiency

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Proportion of E Orders	19%	20%	↓ -0.68pp	19%	↓ -0.82pp
Proportion of E Invoices	28%	20%	↑ 7.73pp	25%	↑ 5.25pp
Web Sales	£624,543	£666,232	↓ -6.3%	£4,084,337	↑ 20.5%
System Availability	100%	100%	↑ 0.0%	100%	↑ 0.0%

Employees

Full year up to Aug 15 data....

	No. FTE at Aug 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	30	96	3.1	19.8	↑ 16.7

Commercial Balanced Scorecard Sep 15

Catalogue Metrics

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock Sales	£3,907,826	£4,568,078	↓ -14.5%	£24,045,813	↓ -4.6%
Stock Margin £	£1,061,932	£1,195,923	↓ -11.2%	£6,146,841	↓ -6.4%
Stock Margin %	27.17%	26.18%	↑ 0.99pp	25.56%	↓ -0.49pp
Direct Sales	£1,985,494	£2,355,139	↓ -15.7%	£9,877,820	↓ -0.4%
Direct Margin	£251,862	£270,945	↓ -7.0%	£1,166,909	↑ 2.3%
Direct Margin %	12.69%	11.50%	↑ 1.18pp	11.81%	↑ 0.31pp
New Customers	122	80	↑ 42	605	↑ 85
Supplier Funding £	£907	£5,000	↓ -81.9%	£797,507	↑ 2.2%

Framework

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Rebate Revenue	£373,429	£291,856	↑ 27.9%	£2,076,786	↑ 21.9%

	Target	Q1	Q2	Q3	Q4
% Renewed on time	90%	93%	0.0%	0.0%	0.0%
E tendering usage vs. paper tendering	40%	100%	0.0%	0.0%	0.0%
Number of contracts awarded to SMEs as a % of no of contracts awarded		78%	0.0%	0.0%	0.0%

Customer Engagement

	Current Month	YTD
Comms Newsletters	1	4
Focus Groups Held	0	0

	Target	Q1	Q2	Q3	Q4
Customer Satisfaction Rate	2.4/4	3.15/4	0.0%	0.0%	0.0%

Employees

Full year up to Aug 15 data....

	No. FTE at Aug 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	116	768	6.6	6.4	↓ -0.2

Procurement Challenges

	Target	Q1	Q2	Q3	Q4
% of challenges against % of completed procurements	10%	0.0%	0.0%	0.0%	0.0%



FINANCE AND AUDIT SUB COMMITTEE – 16 NOVEMBER 2015

**PROPOSAL TO CHANGE THE BASIS OF CALCULATING THE
DIVIDEND DISTRIBUTION**

**JOINT REPORT OF THE CONSORTIUM TREASURER AND
DIRECTOR**

Purpose of Report

1. To consider the impact of moving to a different method of calculating the dividend distribution.
2. The possibility of moving to a revised method of dividend distribution was considered at Chief Officers Group on 18th May 2015. At that meeting the core principles of the dividend distribution model were agreed and it was resolved that the Director was to come back with a recommendation for the next meeting of the Chief Officers Group minimising the per member swing.

Background

3. The basis of the dividend distribution has remained unchanged for a number of years. A recent review by Internal; Audit contained a recommendation that the basis of the calculation be revisited by Members to ensure it is still appropriate. In addition the recent leaving of Leicester City Council from the Consortium also gives an opportunity for the basis of the dividend calculation to be reconsidered now that membership has been reduced from seven to six.
4. The previous method of calculating the dividend (as shown in appendix 1) included various multipliers to elements of trade with ESPO, the support and logic for which has been lost over recent years, and is increasingly difficult to be comfortable with as the basis to allocate future surplus.
5. The basic principles of an ESPO surplus calculation are considered to be as follows:
 - 80% of retained surplus distributed to Members each year;
 - Calculation should encourage usage of ESPO and its services, through the supply of consumables, framework usage and broader services where appropriate.

- Consideration should be given to the equal shared risk between the members.
- Acknowledgment of prior engagement with the organisation in building the organisation to what it is today should also be a consideration.

Proposal

6. The proposal is that a minimum dividend of £30k per Member is fixed, 5% is based on the previous 5 years usage, 15% on usage of top 10 frameworks and the final balance is allocated on total catalogue usage (stores and direct) including academies. The impact of this is as follows:

	Total Dividend 14/15 £	Original Dividend £	Change £
Cambridgeshire	223,940	212,361	11,579
Leicester City	0	0	0
Leicestershire	261,271	249,148	12,123
Lincolnshire	297,293	325,930	-28,637
Norfolk	350,973	322,949	28,024
Peterboro City	108,537	108,950	-413
Warwickshire	214,927	237,602	-22,675
	1,456,940	1,456,940	0

The reason for choosing this proposal is that it was the mix of variables that had the smallest overall impact on Members compared to the previous method of distribution.

7. In the event that a £3.3m surplus is achieved in 2015-16 the dividend per Member will be as follows assuming the same level of usage:

	Total Dividend 14/15 £	Total Dividend 15/16
Cambridgeshire	223,940	356,597
Leicester City	0	0
Leicestershire	261,271	416,042
Lincolnshire	297,293	473,403
Norfolk	350,973	558,882
Peterboro City	108,537	172,831
Warwickshire	214,927	342,245
	1,456,940	2,320,000

8. The previous 5 years usage metric will be calculated on a rolling 5 year basis. This has the effect of building a multiplier in to the calculation as credit is given in year for high usage and this is then rolled in to the following year's

calculation for usage. This encourages continued and long term high usage of ESPO.

Conclusion

9. A move to a more equal risk calculation, including framework usage, historical usage and catalogue usage would represent a more equitable split of the dividend.

Resources Implications

10. None

Recommendation

11. Members are asked to consider the proposed change to the dividend distribution model to one based on more equal risk calculation, including framework usage, historical usage and catalogue usage for the years 2015-16 onwards; and to make any recommendations before this proposal is progressed to the Management Committee.

Equal Opportunities Implications

12. None

Risk Assessment

13. None

Officers to Contact

Mr J Doherty – Director (Tel: 0116 265 7931)
Mr C Tambini – Consortium Treasurer (Tel: 0116 305 7831)

Appendix 1 - Previous dividend distribution model.

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ESPO DIVIDEND DISTRIBUTION

	STORES			CENTRAL PURCHASING						TOTAL			Prior Year £	Change £	
	Sales £000's	%	Dividend £	Contracts Sales £000's	Directs Sales £000's	Strategic £000's	Contracts Sales x2 £000's	Directs Sales x 7 £000's	Total sales £000's %		Dividend £	Total Dividend £			
Cambridgeshire	2449	15.0	267,537	6,247	1250		12,494	8,751	22,495	16.59	-55,176	212,361	232,624	-20,263	-8.7%
Leicester City	0	0.0	0	0	0		0	0	0	0.00	0	0	207,008	-207,008	-100.0%
Leicestershire	2897	17.7	316,570	9,693	1013		19,386	7,090	27,488	20.27	-67,422	249,148	210,555	38,593	18.3%
Lincolnshire	3524	21.5	384,931	6,185	1461		12,369	10,225	24,055	17.74	-59,001	325,930	233,814	92,116	39.4%
Norfolk	3843	23.5	419,827	13,392	1589		26,785	11,123	39,497	29.13	-96,878	322,949	341,153	-18,204	-5.3%
Peterboro City	1115	6.8	121,868	164	617		327	4,322	5,267	3.88	-12,918	108,950	93,467	15,483	16.6%
Warwickshire	2552	15.6	278,811	4,494	977		8,987	6,838	16,801	12.39	-41,209	237,602	209,876	27,726	13.2%
								0							
County sales	16380	100.0	1789544	40174	6907	0	80349	48348	135603	100.00	-332,604	1,456,940	1,528,497	-71,557	-4.7%

Dividend Payments

	Stores	CP	Total	
Net Surplus	2,578,155	-415,812	2,162,342	
Earmarked Funding	-200,000	-200,000	-400,000	
Trading Surplus	2,378,155	-615,812	1,762,342	
			0	
	2,378,155	-615,812	1,762,342	
Equals	20%	588,611	-283,208	305,402 Retained Surplus
	80%	1,789,544	-332,604	1,456,940
Less Earmarked funding				
	2,378,155	-615,812	1,762,342	Distributable Surplus

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FINANCE AND AUDIT SUB COMMITTEE – 16 NOVEMBER 2015

NATIONAL LIVING WAGE

REPORT OF THE DIRECTOR & CONSORTIUM TREASURER

Purpose of Report

1. The purpose of this report is to outline the potential impact of the implementation of the National Living Wage (NLW).

Background

2. The summer budget increased the national minimum wage by 11% from £6.50 per hour to £7.20 from April 2016 for over 25's and renamed it the National Living Wage (NLW). Thereafter it will increase to 60% of the national median wage by 2020.

Overall Costs

3. The table below shows that the cost to ESPO of this Government policy could be in the region of £1.5m in 2020/21 and £570k in the year when we are targeting to achieve a £6m surplus.
4. Whilst we intend to absorb the 2016/17 impact of the Living Wage changes, the outer years are not currently factored into the MTFS.

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
	<u>£k</u>	<u>£k</u>	<u>£k</u>	<u>£k</u>	<u>£k</u>
Existing Staff	0	100	250	430	700
Impact on School Budgets	10	20	50	80	130
Impact on Suppliers	5	20	20	30	50
Impact on Wage Differentials	5	100	250	430	700
TOTAL	20	240	570	970	1,580

5. The Government has not stated whether under the new burdens agreement the impact on will be offset by additional resources. However, should it be the case, it is not likely to be afforded to organisations such as ESPO.

6. As such at this stage the assumption is that there will be a major impact on the MTFS.

Assumptions

7. The following assumptions have been made in arriving at the above figures:

- a) That the NLW increases in the following linear manner:

Year	2016-17	2017-18	2018-19	2019-20	2020-21
Rate	7.20	7.84	8.48	9.11	9.75

- b) This assumes the most prudent rate of £9.75 in 2020/21 referred to under risks below.
- c) The impact on pay for ESPO has been calculated on an individual basis by looking at the budget payroll file for 2015-16. The assumption is that everyone on pay-point 15 or below will be impacted directly.
- d) The impact on pay differentials is important. As it stands, housekeepers in the warehouse at ESPO would earn the same as drivers without taking this in to account. To ensure the differentials are maintained, the working assumption is that at least the same amount needs to be allowed for in differentials as the increase in pay under the NLW. It may be more.
- e) Consumables are a day-to-day reality for schools and are not a large individual item in the budget. If schools' budgets are however not compensated, then a possible 1% drop in volume could be expected on store sales.
- f) We expect to be exposed to increases in supplier costs; however, there are a number of ways that we can seek to reduce the impact of these items including:
- Increased competitions/sales
 - Overseas sourcing
 - Increased prices
 - Looking to serve a wider audience is also likely to become important, and this may now be the catalyst to explore the creation of a vehicle whereby we may serve the private as well as the public sector.
- g) We need to consider and plan for the impact to ESPO, the protection of the shift premium structure, and Leicestershire County Council approach to the Living Wage.

Risks

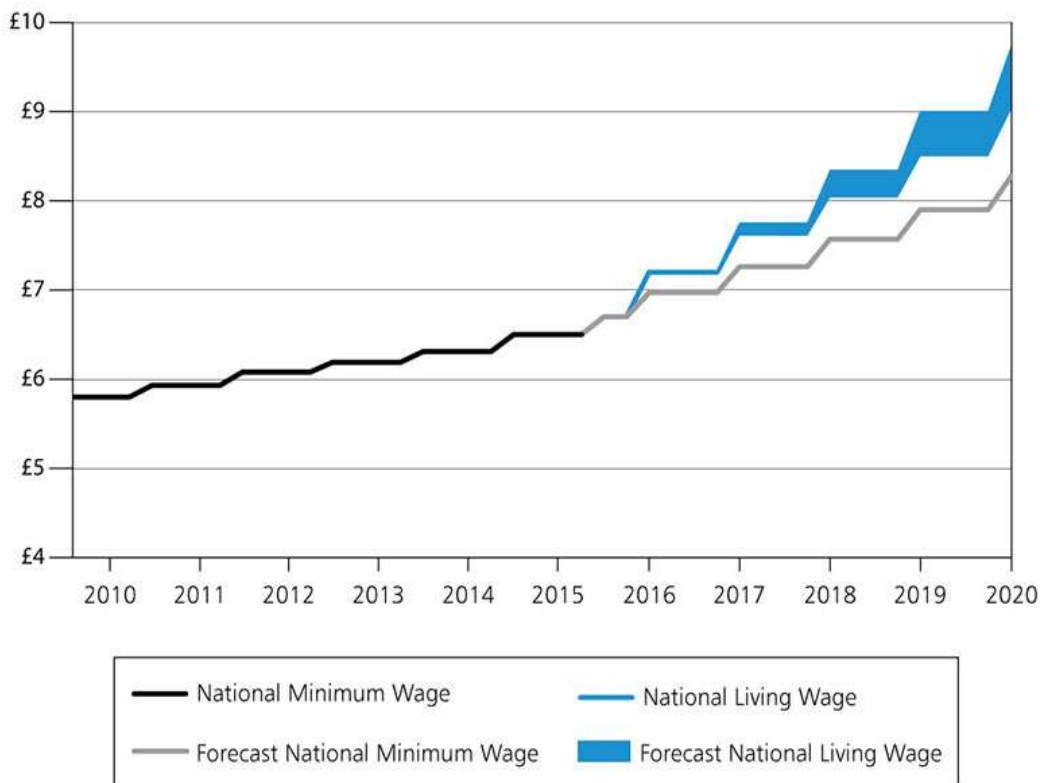
8. It is not straightforward to forecast the impact on the ESPO's budget due to a number of uncertainties and unknowns. The estimate needs to be treated with

caution; however, it does indicate the scale of the challenge.

9. Some of the risks and uncertainties are set out below:

- Knock on impact on pay scales - to maintain an element of pay differential, this has been factored in above but may be more;
 - Knock on impact on the labour market - unintended consequences;
 - Under 25 impact - the minimum pay for people under 25 will continue to be set by the minimum wage.
- Impact on customers as they have less to spend is included in the assumptions above, but clearly this is an initial estimate.
 - The path of change is from £7.20 to £9 or more by 2020/21; however, the Office of Budget Responsibility (OBR) forecasts £9.35 by 2020/21, although a range from £9 to around £9.75 is suggested by the chart reproduced below.
10. HM Treasury suggests that the NLW 'will mean a direct boost in earnings for 2.7m low wage workers, and the OBR have indicated that knock-on effects further up the wage distribution could mean a further 3.25m people see an increase in wages as a result of the NLW'.

National Minimum Wage and National Living Wage, historical and forecast



Source: HMT calculation based on OBR forecast of average hourly earnings and historical and announced National Minimum Wages.

11. There is no doubt that this is a significant government policy where the implications can at best be described as uncertain. There will be a number of implications which could include:
 - Schools coming under increasing financial pressure especially in low funded areas such as Leicestershire.
 - Pressure to maintain margins at the supplier base as they seek to pass the impact on in prices.

Next Steps

12. The following challenges will need to be considered:
 - Identify the potential impact on our organisation;
 - See how, in the short term, this can be accommodated within our budget;
 - Efficiencies have already been baked into the revised MTFS and, therefore, it is unlikely that we would be able to create further efficiencies to absorb this hike in our cost base.
 - Reshape our growth ambitions to ensure we are not wholly dependent on the increased margin costs.
13. This obviously has a significant impact on the MTFS. Appropriate contingency plans will need to be made to ensure the budget can be balanced in 2016/17 and later years.
14. Whilst the ESPO Leadership team continue to identify as much savings as possible and also consider the likely impact on the delivery of the MTFS surplus, the material cost impact of the Living Wage will be overlaid on the current MTFS plan and considered in the planning for wider initiatives being developed for the outer years.

Resources Implications

15. Over £570k of extra costs are likely to be incurred in 2018/19.

Recommendation

16. Members are asked to note the content of this report.

Officer to Contact

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



**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 16 NOVEMBER
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 periodic progress reports.
3. The audits undertaken are based on the annual internal audit plan. Variations to the plan can occur but need to be considered with and agreed by the Treasurer and the Director of ESPO.

Summary of Progress

4. Audits completed (to at least the stage of draft report issued) between 26 August and 30 October 2015, are shown in **Appendix 1**. Where audits undertaken are an 'assurance' type i.e. the auditor is able to objectively examine evidence for the purpose of providing an independent assessment, then an 'opinion' can be given i.e. the level of assurance 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 levels of assurance: full; substantial; partial; and little. A report that has a high importance (HI) recommendation would not normally get an opinion above partial assurance. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.
6. There were no audits with HI recommendations or partial assurance opinions in this period.
7. **Appendix 2** summarises at 30 October 2015, the progress against 2015-16 audits and shows completed audits; those in progress and those not yet started. Audit reference numbers (in the sequence of the agreed internal audit plan) and type (governance, risk management and internal control) have been added to track each audit's progress. Some audits are split into phases 'a' (assessment of control design) and 'b' (compliance that controls are being applied).
8. It was found that the HI recommendations from the audit of ICT applications - Optima Energy Software (16/13a) are being managed sufficiently in order to to close them off. This will be reported to Management Committee at its meeting on 4 December 2015.
9. The current position is beginning to show some stack up of audits in the last five months of the year. Some of this is expected as that's when some audits are traditionally due. Nevertheless, there will need to be focussed liaison with the Director and his management team in order to be aware of and accommodate any changes to ESPO's priorities in order to ensure the internal audit plan is sufficiently completed.

Recommendation

10. That the contents of the report be noted.

Equal Opportunities Implications

11. 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

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Email: neil.jones@leics.gov.uk

Appendices

Appendix 1 – Audits completed as at 30 October 2015

Appendix 2 – Summary progress against 2015-16 audits as at 30th October 2015

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Audits completed as at 30 October 2015

Audit Name	Final Report Issued (or position @ 30/10)	Audit Opinion	HI Rec
Annual Governance Statement 14/15	Completed		No
Risk Management	Completed		No
Optima Energy Software - follow up of Hi recs	Update issued	Substantial Assurance	No
Public Contract Regulations	Draft issued 9/10/15	Substantial Assurance	No

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Summary progress against 2015-16 audits as at 30th October 2015

Audits 'completed'

<u>Ref¹</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 30 October 2015</u>
16/1a	GO	Annual governance statement 2014/15	Compliance to the principles of good governance is demonstrated - to include any framework revisions planned by CIPFA	Completed Based on interviews (without gaining evidence). Minor recommendations to: - <ul style="list-style-type: none"> • improve the AGS composition process • formalise induction for new members • improve communications to staff
16/7a	RM	Risk management	Recommendations from 2014-15 are implemented	Completed Whilst a number of recommendations had been addressed, some areas linked to the risk management statement will be followed up in the last quarter (see 16/7b).
16/13a	RM	ICT applications - Optima Energy Software	To confirm prior year High Importance (HI) recommendations have been progressed	Position reviewed and an update report issued showing that significant progress has been made and the HI recommendations are being managed sufficiently to reduce the internal audit risk rating to amber. The ICT Auditor will continue to monitor the implementation through to business as usual

16/14a	RM	Procurement & Compliance Risk Management	The framework is sufficiently robust to prove effectiveness and avoid liability.	<p>Provisional draft issued – substantial</p> <p>Audit focused on how ESPO planned for and implemented the PCR 2015 transition.</p> <p>Part b of the audit will test ESPO's compliance against procurement undertaken post 26 February 2015.</p>
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Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 30 October 2015</u>
16/2	GO	Business Strategy/Transformation	Attainment of the objectives of the Strategy is well governed - follow up work commissioned from Transformation Unit	In progress – further clarification is required from ESPO in order to finalise the ToE ³
16/6	GO	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 – ESPO has provided information in order to develop the ToE.
16/8	GO	Transparency	Comparison against other purchasing organisations' transparency on websites.	In progress. Some 'desktop' comparisons undertaken. Awaiting clarification from the Consortium Secretary
16/9	RM	Business Strategy/Transformation – individual projects	Control design (of specific project(s)) is adequate to mitigate risk	In progress – further information is required from ESPO in order to develop the ToE
16/10	RM	Customer satisfaction	The risks of customer loss are identified and mitigated	Awaiting ToE approval. Testing is imminent.
16/16	IC	BACS	Access is controlled and transactions are validated	ToE approved. However, ESPO has requested a delay until late early December due to a system upgrade
16/17	IC	Distribute Surplus - Design	The design and security of the revised financial model is robust	ToE drafted. Awaiting full approval of the re-designed principle.
16/20	IC	Servicing authority	The servicing authority is providing service in line with the agreement	Draft report imminent

Audits not yet started

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 30 October 2015</u>
16/1b	GO	Annual governance statement 2015-16	Compliance to the principles of good governance is demonstrated - to include any framework revisions planned by CIPFA	Planned late quarter 4
16/3	GO	Control environment	The obligations of the revised Accounts and Audit Regulations applicable from April 2015 to have a sound system of internal control are met	Research stage
16/4	GO	Governance framework	The requirements of the Consortium Agreement, Constitution and appropriate schedules are embedded - to include role of Servicing Authority and potentially a review of the effectiveness of Committees	Research stage
16/5	GO	Information management	The Payment Card Industry requirements are complied with	
16/7b	RM	Risk management	Limited testing on ESPO's 2015-16 risk processes (might include review of policy)	Planned early quarter 4
16/11	RM	Counter Fraud - NFI specific	Interpretation and investigation of outputs	
16/12	RM	Counter Fraud	Systems and procedures are sufficiently robust to mitigate the risk of fraudulent or irregular activity	
16/13b	RM	ICT applications – Aurora upgrade	The Aurora upgrade due in 2016 is adequately planned	Enquiring on internal audit role in initial development work

16/14b	RM	Procurement & Compliance Risk Management	ESPO's adherence to The Public Contracts Regulations 2015	
16/15	IC	Warehousing	The temporary warehouse arrangements are adequately managed to attain vfm, avoid stock losses and avoid liability	
16/18	IC	General ledger reconciliations ⁴	Reconciliations are undertaken to facilitate the accuracy and completeness of the general ledger. Usual coverage of cash & treasury; receivables; payables; payroll and stock	
16/19	IC	IT general controls ⁴	The range of controls expected by the External Auditor are well designed and consistently applied.	
16/20	IC	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated	Planned quarter 4
16/21	IC	Trading performance ⁴	The trading results provided by ESPO, both for internal use and reported to the Management Committee, are well founded in the general ledger	
16/22	IC	Vehicle & Fleet operating costs	Revised arrangements are monitored and securing vfm	Awaiting

¹unique reference numbers based on the financial year in question (i.e. '16' relates to 2015-16), in the sequence of the approved internal audit plan

²the three elements of the control environment (governance, risk management and internal control)

³terms of engagement

⁴traditionally audits where the external auditor has placed reliance on the work of internal audit.

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 16 NOVEMBER 2015

REVIEW OF THE FREQUENCY OF FINANCE AND AUDIT SUBCOMMITTEE MEETINGS

REPORT OF THE CONSORTIUM SECRETARY

Purpose of Report

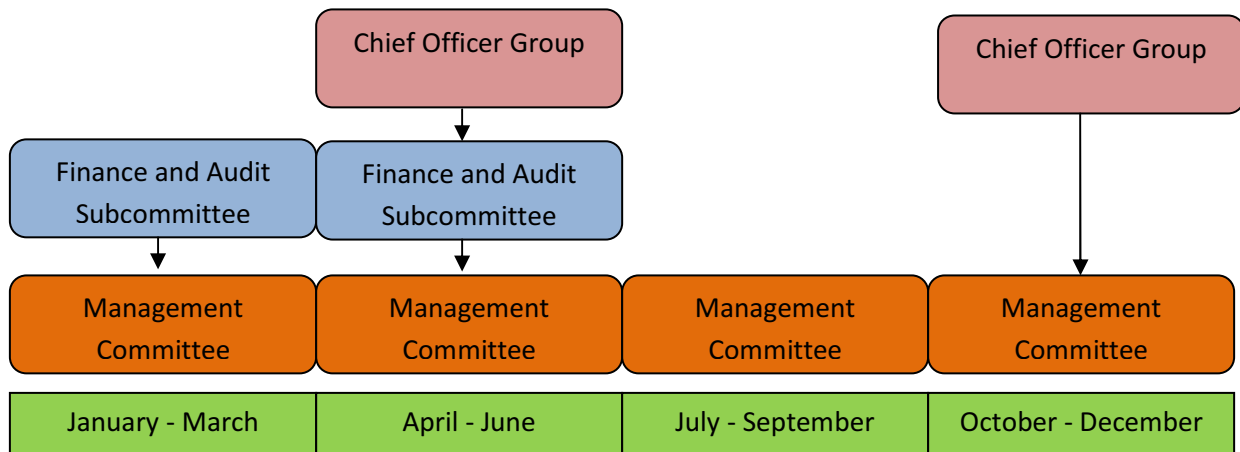
1. The purpose of this update is to review the need for and the frequency of meetings of the Finance and Audit Subcommittee.

Background

2. The Finance and Audit Subcommittee was established in June 2012 as part of a wider effort to ensure that robust governance and monitoring arrangements were developed and implemented.
3. At present the Finance and Audit Subcommittee meets on a quarterly basis, usually a few weeks before the Management Committee meeting. In accordance with the Terms of Reference, the Subcommittee is currently responsible for:-
 - Developing a better understanding of the financial planning process undertaken by ESPO;
 - Supporting the financial planning process by reviewing draft financial plans for consideration at Management Committee;
 - Contributing to the setting of financial performance targets and monitoring of efficiencies;
 - The receiving and reviewing of regular reports on budget and performance monitoring;
 - To receive and review audit and governance reports.
4. At its meeting on 8 September 2015, members of the Finance and Audit Subcommittee requested that the current cycle of quarterly Subcommittee meetings be reviewed, with the intention of reducing this to two meetings per annum.
5. The proposal to reduce the number of Subcommittee meetings also reflects the view of members that as an organisation, ESPO is in a significantly better position than when these governance arrangements were originally conceived, and a reduction in the frequency of meetings would also assist the member authorities at a time when resources are stretched.

Proposal

6. If the Management Committee agrees the recommendation to reduce the number of Finance and Audit Subcommittee meetings to two per year, it is suggested that the remaining meetings should take place to coincide with key financial dates in the accounting diary, viz. a meeting in January/February to consider the draft Medium Term Financial Strategy and budget for the next financial year, and a meeting in May/June to consider the draft outturn and accounts for the previous financial year.
7. The Head of the Internal Audit Service would continue to submit quarterly progress reports against the internal audit plan for consideration by the Consortium Treasurer and Director. Where any issues of concern had been identified, members of the Finance and Audit Subcommittee would be informed.
8. If these proposals were implemented, the flow chart below summarises in broad terms the potential cycle of ESPO meetings during a typical year:



9. The above chart does not reflect the fact that the Director of ESPO and members of the Management Team meet regularly with members of the Consortium Authorities to brief them at an early stage of developments/issues as well as talk about issues and potential developments that Consortium members might wish ESPO to assist with.
10. As per the Consortium Agreement, members of the Subcommittee, or the Chair of the Management Committee, would be able to request an extraordinary meeting of the Subcommittee should any significant financial or audit event occur.

Timetable for decisions

11. The Finance and Audit Subcommittee will be consulted on these proposals at its meeting on 16 November 2015 before seeking approval from the

Management Committee on 4 December 2015. Subject to Management Committee approval the new meeting cycle will be implemented in 2016.

Legal Implications

12. The County Solicitor has been consulted on the content of this report. No amendments to the Consortium Agreement for ESPO would be required as a result of these proposals.

Resource Implications

13. If the proposals outlined in this report are agreed by the Management Committee, this would have a positive impact on resources for ESPO and its member authorities without affecting the necessary oversight required.

Recommendation

The Subcommittee is requested to comment on and note the contents of this report.

Officers to contact

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