



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: 18 September 2015
My Ref: BH/ESPO
Please ask for: Ben Holihead
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To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held at on Monday 28 September 2015 at 11.00 am at ESPO, Grove Park, Leicestershire, LE19 1SY.

A tour of the premises will be provided to Members at 10.30 am and a buffet lunch will be provided after the meeting. Please telephone or email me (details above) to confirm that you require car parking and 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 24 June 2015.	(Pages 3 - 10)
2. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.	
3. Declarations of interests in respect of items on this agenda.	

4. Items referred by the Finance and Audit Subcommittee.

There are no specific items referred. The issues considered by the Subcommittee are covered in items 8 and 9 on this agenda.

5. 2015 Peak Review.

Presentation by ESPO officers.

6. External audit of the 2014/15 Financial Statements. (Pages 11 - 52)

Report of PricewaterhouseCoopers.

7. Director's Progress update. (Pages 53 - 60)

Report of the Director.

8. Statement of Accounts and the Annual Governance Statement for 2014/15. (Pages 61 - 128)

Joint Report of the Director and Consortium Treasurer.

9. MTFS Monitoring for the First Four Months of 2015/16. (Pages 129 - 136)

Joint Report of the Director and Consortium Treasurer.

10. Dates of future meetings.

Future meetings of the Management Committee will be held on the following dates:-

- Friday 4 December 2015 – 10.30am at County Hall, Glenfield.
- Wednesday 2 March 2016 – 11.00am at County Hall, Glenfield.
- Wednesday 29 June 2016 – 11.00am at County Hall, Glenfield.
- Wednesday 28 September 2016 – 11.00am at ESPO, Grove Park.
- Wednesday 30 November 2016 – 11.00am at County Hall, Glenfield.

11. 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 item of business in accordance with the provisions of Section 100(A) (4) of the Local Government Act 1972.

12. Supplementary Information Informing the Director's Progress Update. (Pages 137 - 150)

Report of the Director.

(Exempt under paragraphs 3 and 10 of Section 100(A)).



Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Wednesday, 24 June 2015.

PRESENT

Cambridgeshire County Council
Mr. R. Hickford CC

Norfolk County Council
Mr. M. Castle CC
Mr. I. Monson CC

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

Peterborough City Council
Mr. J. Holdich CC

Lincolnshire County Council
Mr. R. Foulkes CC

Warwickshire County Council
Mr. J. Clarke CC
Mr. D. Parsons CC

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

RESOLVED:

That Mr. J. Clarke CC (Warwickshire County Council) be appointed Chairman for the 2015/16 municipal year.

(Mr. J. Clarke CC in the Chair)

2. Election of Vice-Chairman for the municipal year 2015/16.

RESOLVED:

That Mr. I. Monson CC (Norfolk County Council) be appointed Vice-Chairman for the 2015/16 municipal year.

3. Minutes of the previous meeting.

The minutes of the meeting held on 4 March 2015 were taken as read, confirmed and signed.

4. Urgent items.

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

5. Declarations of interests.

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.

6. Items referred by the Finance and Audit Subcommittee.

There were no items referred by the Finance and Audit Subcommittee.

7. Update on the new Public Contract Regulations.

The Committee received a presentation from ESPO officers outlining the changes in the new Public Contract Regulations 2015. A copy of the presentation is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). The UK had been the first member state to implement the EU directive and had made a significant contribution toward the regulations;
- (ii). Many aspects of the new regulations had not changed from the previous regulations, and that the new regulations sought to clarify some of the existing regulations rather than to make changes;
- (iii). The regulations were intended to make the public procurement process quicker, make it easier for small and medium size enterprises to complete, and required the use of e-procurement across all contracts by 2017;
- (iv). The new regulations allowed public sector organisations to exclude companies from tenders on the basis of previous contract performance, which had not been previously permitted. The regulations also allowed companies excluded from tenders on the basis of previous performance to demonstrate that they had made significant changes to improve their reliability and should therefore be reconsidered to take part in tendering. However, it was unclear how this process would work due to a lack of examples in case law;
- (v). Members were advised that although no specific risks had been identified for ESPO from the new regulations, but as with any changes to processes or regulations there was always a certain amount of risk associated with the uncertainty.

RESOLVED:

That the presentation on the new Public Contract Regulations be noted.

8. Director's Progress Update.

The Committee considered a progress update from the Director which informed members of the actions and progress made since the last Committee meeting held on 4 March 2015. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). Members were advised that the lower gas sales forecast during the year were solely due to weather-related lower usage and not due to any loss in customers;

- (ii). Rebate income at the end of the 2014/15 financial year had been strong. Officers were also informed that ESPO had enjoyed its 14th successive year of record store sales;
- (iii). Catalogue income had grown along with margin increases following the recent price increase;
- (iv). Subject to the audit being undertaken by PwC during the summer, the surplus was now expected to be £2.2m. This is in line with the forecast range of £2.0m - £2.2m;
- (v). Following the results of the general election the expectation was that schools would continue to be converted to academies. Members were informed that the Director would look at marketing ESPO services to the large academy organisations;
- (vi). ESPO provided additional services for consulting and major project services for member authorities and customers at a lower cost than may be provided by other agencies and organisations (as stipulated in the Consortium Agreement). The current day rate for member authorities for such services was £460, whilst the rate for non-members was £520. However arising from a recent review of these rates, Members were asked for approval to reduce the member authority rates to £427;
- (vii). The Director outlined the various achievements of ESPO such as being awarded Marketing Campaign of the Year, and performing well at the Society of Procurement Officers in Local Government annual conference;
- (viii). ESPO had not received any legal challenges over the last 18 months and had reduced risk as much as possible by keeping all procedures tight and ensuring they were followed correctly;
- (ix). Members were advised that the balanced scorecard in the report contained an error, and that the stores catalogue margin percentage was at 31.9% and the target was 32.2%.

RESOLVED:

- a) That the contents of the update be noted;
- b) That the day rates for consulting and major project services to member authorities be reduced to £427.

9. Change to the order of business.

RESOLVED:

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

10. Exclusion of the public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled 'Supplementary Information informing the Director's Progress update' 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.'

11. Supplementary Information Informing the Director's Progress Update.

The Management Committee received an exempt report of the Director which set out further supplementary information regarding the Director's Progress Update. A copy of the exempt report, marked 'Agenda Item 17', 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 supplementary information informing the Director's Progress Update be noted.

(THE MEETING RESUMED IN OPEN SESSION)

12. Building Maintenance and Capital Plan.

The Committee received a report outlining the summary and recommendations of a recent building survey carried out on the ESPO building by the servicing authority. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). Each year £400,000 had been set aside as a reserve for maintenance work to be carried out on the building. At present £1.2m was currently available in the reserves. The work that was identified in the building survey was estimated to cost £277,000 which the Committee was being asked to release from the funds;
- (ii). Members were advised that there were business continuity measures in place, with server backups being taken off site every day and an annual exercise to ensure that ESPO would be able to restore service in the event of an incident;
- (iii). Arising from comments from members, the Director advised that he would look into the issue of hedges and trees blocking the ESPO logo.

RESOLVED:

- a) That the plans and associated expenditure for essential building maintenance be noted;
- b) That approval be given to the release of £277,000 from the earmarked reserves for maintenance of the ESPO building.

13. Draft Outturn 2014/15.

The Committee received a report of the Consortium Treasurer outlining the draft Outturn for 2014/15. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). ESPO officers had been contacted by the auditors, PwC, to inform ESPO that emphasis would be placed on rebate income during the audit. Members were reassured that this was not due to anything related to ESPO but stemmed from issues that had recently arisen at Tesco;
- (ii). As had been previously reported, expenditure had increased during the year arising from the need to use agency staff during the peak period. Action had since been taken to mitigate future issues arising from the peak period, such as usage of a seasonal relief warehouse. Members were advised that it was still necessary to use agency staff when warehouse staff were off sick;
- (iii). The Director advised that an action plan was being put in place to address the sickness absence rates which were presently off target. Members were advised that the statistic of 12.07 days per FTE was potentially an overestimate, but nonetheless it was an issue which required further work;
- (iv). Members raised concerns regarding staff satisfaction during the peak ordering period. Warehouse staff were not permitted to take holiday leave during the peak period and the Director advised that he had committed extra resource during the peak-period (such as the seasonal relief warehouse) rather than increasing the burden on staff;
- (v). In response to a query by members about the feasibility of increasing the surplus dividend for 2014/15 from £1.4m to £1.5m, the Director advised that if approved, this would be taken from the reserves and that the implications of this would be relatively small. Members were further advised that if this was agreed, the Director would bring a revised report to the September meeting.

It was moved by Mr Monson and seconded by Mr Holdich:

"That the dividend surplus for 2015 be increased from £1.4m to £1.5m".

The motion was put, eight members voting for the motion and one against. The motion was carried.

RESOLVED:

- a) That the draft Outturn 2014/15 be approved;
- b) That the allocations from the operating surplus from 2014/15 be approved;
- c) That the dividend surplus for 2015 be increased from £1.4m to £1.5m;
- d) That the payment of the dividend, subject to the approval of the accounts in September 2015 be approved.

14. Change to the order of business.

RESOLVED:

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

15. Exclusion of the public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled 'Supplementary Information informing the Draft Outturn 2014/15 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.'

16. Supplementary Information Informing the draft Outturn 2014/15.

The Management Committee received an exempt report of the Director which set out further supplementary information regarding the draft Outturn 2014/15. A copy of the exempt report, marked 'Agenda Item 18', 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 supplementary information informing the draft Outturn 2014/15 be noted.

(THE MEETING RESUMED IN OPEN SESSION)

17. Annual Report 2014/15.

The Committee received a report from the Director outlining the Annual Report for 2014/15. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

The report outlined the principles guiding ESPO, the latest results, and key milestones including staff achievements. Members expressed their support for the contents of the report, and that it represented the good year that had been experienced by ESPO despite difficulties in the warehouse.

RESOLVED:

That the Annual Report 2014/15 be noted.

18. Annual Governance Statement 2014/15.

Members received a report outlining the draft Annual Governance Statement. A copy of the report, marked 'Agenda Item 12', is filed with these minutes.

Some areas of improvements in governance had been identified in the statement, such as updating the Business Continuity plans and succession planning for key posts. As has

been previously reported improvements were required to ensure internal audit functions fully conformed to the Public Sector Internal Audit Standards. The progress of improvement in these areas would be reported back to members at future meetings of the Committee

Members were advised that as part of the work on governance, the issue of training for new members on ESPO processes and its services was identified. Members were advised that such training could take place at the next Committee meeting in September which would include the annual tour of the facilities.

RESOLVED:

That the draft Annual Governance Statement for 2014/15 be noted.

19. Annual Review of Organisational Approach to Risk Management.

The Committee received a report outlining the Annual Review of the Organisational Approach to Risk Management. A copy of the report, marked 'Agenda Item 13', is filed with these minutes.

Quarterly meetings were held with the senior leadership team at ESPO to review the Corporate Risk Register. Any increased or new risk which could have a material impact on ESPO would be immediately reported to the Chief Officer Group and to the Committee.

RESOLVED:

- a) That the report be noted;
- b) That the revised Risk Management Statement be approved.

20. Internal Audit Service Annual Report.

The Committee 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 14', is filed with these minutes.

The report had been previously considered at the Finance and Audit Subcommittee in its capacity as the Board, but required approval from the Committee. 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.

RESOLVED:

That the Internal Audit Service Annual Report be approved.

21. Date of Next Meeting.

It was noted that the next meeting of the Committee would take place on 28 September 2015 at ESPO, Grove Park, Enderby.

22. Exclusion of the public.

RESOLVED:

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

23. Change Programme Update.

The Management Committee received an exempt report of the Director which updated the Committee on the progress of the Change Programme. A copy of the exempt report, marked 'Agenda Item 19', 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 Change Programme update be noted.

(THE MEETING RESUMED IN OPEN SESSION)

10.30 am - 12.30 pm
24 June 2015

CHAIRMAN



ESPO MANAGEMENT COMMITTEE – 28 SEPTEMBER 2015

EXTERNAL AUDIT OF THE 2014/15 FINANCIAL STATEMENTS

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM SECRETARY

Purpose of Report

1. To report the key findings from the external audit of the 2014/15 financial statements and to present the letter of representation from the Consortium Treasurer to the auditors.

Background

2. PricewaterhouseCoopers (PwC), the external auditors, are required to communicate the results of the 2014/15 audit of ESPO's financial statements to those charged with governance prior to certifying the statement of accounts.
3. A copy of the auditor's report and the draft letter of representation from the Consortium Treasurer is attached as an Appendix to this report
4. As set out in the report, PwC propose to certify the financial statements with an unqualified opinion.
5. The PwC Auditor responsible for the audit will attend the Committee meeting on the 28 September to communicate any significant findings and answer any questions.
6. The auditors report is circulated to the Management Committee with the status of a "draft" and subject to approval at this meeting will be published as a final report.
7. The draft Statement of Accounts was distributed to Members on 26 June 2015. The Statement of Accounts is presented to the September Committee meeting for approval elsewhere on the agenda for this meeting.

Consideration by the Finance and Audit Subcommittee

8. At its meeting on 8 September 2015 the Finance and Audit Subcommittee received an oral update on the external audit being undertaken by PwC.

Recommendation

9. The Committee is asked to consider and approve the external audit of the financial statements 2014/15.

Equal Opportunities Implications

10. None.

Background Papers

11. None.

Officer to Contact

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

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

Appendix

Appendix 1 - Report to those charged with governance (ISA 260 (UK&I)) and Annual Audit Letter - 2014/15 Audit - DRAFT

Appendix 2 – Disclosure of Related Parties

Eastern Shires Purchasing Organisation

Report to those charged with governance

Report to the Management Committee of Eastern Shires Purchasing Organisation (ESPO) on the audit for the year ended 31 March 2015
(ISA (UK&I) 260)

.....
Government and
Public Sector

September 2015

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in December 2014; we have reviewed the plan and concluded that it remains appropriate. Details of our Audit Approach are included in the following section of this report.

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts following approval of the Statement of Accounts by the Management Committee on the 28 September 2015.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- completion of our internal review and quality control procedures;
- completion procedures including subsequent events review;
- approval of the Statement of Accounts, Annual Governance Statement and letter of representation by the Management Committee; and
- receipt of the final signed Statement of Accounts, Annual Governance Statement and the management representation letter.

There are key judgments which require the Management Committee's attention – further details are set out commencing on pages 8 to 16.

The following additional reports have been issued to those charged with governance in 2014/15:

- External Audit Plan 2014/15 – December 2014

We have issued the following report to the Consortium during 2014/15:

- Economy, Efficiency and Effectiveness Report – September 2015.

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

This report contains a summary of the results of our audit and matters which we ask the Management Committee to consider.

Please note that this report will be sent to Public Sector Audit Appointments Limited in accordance with the Audit Commission transition requirements.

This is the final year of the Audit Commission framework contract and therefore our final year as your external auditor under this contract. We remain committed to providing you with a high quality service and would be delighted to continue working with you to provide non-statutory audit services.

We look forward to discussing our report with you on 28 September 2015. Attending the meeting from PwC will be Richard Bacon and Steve Hallam.

We thank the Finance Team and others for their support and assistance during the course of our work.

The scorecard below summarises our view of your accounts and audit performance:

- Key**
- **Red** – significant improvements required
 - **Amber** – some minor improvements required
 - **Green** – no / minimal improvements required

Area	Rating	Comments
Draft accounts	● Green	Your draft accounts were submitted to us in July and were of a good quality. As we would expect in any audit, we identified a small number of disclosure issues which ESPO agreed to amend within the financial statements; none of these disclosure issues were significant.
Readiness for start of audit and working papers	● Green	Working papers were ready for us at the start of the audit, provided electronically, to enable us to select samples without delay. This helped the efficiency and smooth running of the audit, and allowed us to make a prompt and efficient start to our work on the first day we arrived on site. Supporting working papers were of a consistently good standard.
Availability and responsiveness of staff	● Green	The finance team and key members of staff were easily accessible to us during the audit and responded promptly to our audit questions and requests for information.
Significant audit and accounting issues	● Green	We identified some audit and accounting issues during the audit which are explained later in this report. We are satisfied that these are appropriately reflected and disclosed in the financial statements and will be giving an unqualified opinion on the 2014/15 financial statements.

Area	Rating	Comments
Deficiencies in internal control systems	● Green	We have not identified any significant or material deficiencies in internal control.
Annual Governance Statement	● Green	The Annual Governance Statement was provided immediately upon request. We have confirmed that the Annual Governance Statement has been prepared in accordance with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework.
Value for Money	● Green	We anticipate issuing an unqualified Value for Money conclusion. We report in more detail a summary of our work and the findings that we wish to bring to your attention and that support our overall conclusion later in this report.

Audit approach

The following pages highlight the risks we originally identified in our Audit Plan, and explain what we have done in response.

The risks presented here, Management Override of Controls and the Recognition of Income and Expenditure, are presumed to be significant risks under International Standards on Auditing.

Our audit approach was set in our audit plan which we presented to you in December 2014.

We have summarised below the significant risks we identified in our audit plan relating to the audit of ESPO's financial statements, the audit approach we took to address each risk and the outcome of our work.

Risk

Management override of controls (Significant Risk)

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.

In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly.

In your organisation, as the pressure to deliver a surplus increases, so does the risk of management override.

Audit approach and results of work performed

We understood and evaluated your internal control processes and reviewed the work of Internal Audit to consider the issues they raised and the level of assurance that they provided regarding management's ability to override controls.

We performed the following procedures:

- reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;
- sample tested the appropriateness of journal entries posted during the year on a risk basis;
- reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of material misstatement due to fraud;
- evaluated the business rationale underlying significant transactions;
- independently confirmed ESPO's bank accounts and tested the bank and other key control account reconciliations; and
- included an element of 'unpredictability' in our testing.

We did not identify any issues to report.

Risk

Risk of fraud in revenue and expenditure recognition (Significant Risk)

Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.

We extend this presumption to the recognition of expenditure in local government.

There is a risk that ESPO could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue position.

Audit approach and results of work performed

We understood and evaluated your internal processes around relevant income and expenditure controls, and reviewed the outcomes of Internal Audit work to establish whether these are operating effectively. Our final audit procedures included:

- testing the appropriateness of journals processed during the year;
- evaluating accounting policies for income and expenditure recognition to ensure these are consistent with the requirements of the Code of Practice on Local Authority Accounting;
- reviewing significant accounting estimates and judgements for indicators of management bias;
- testing revenue and expenditure cut off at year end;
- understanding how rebate income from suppliers is recognised, and testing this on a sample basis;
- testing a sample of income and expenditure transactions, including accruals; and
- performing analytical procedures on income and expenditure at the year-end.

We did not identify any significant issues, but have brought three issues to your attention later in this report.

Intelligent scoping

In our audit plan presented to you in December 2014 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality thresholds were updated on receipt of the draft 2014/15 financial statements.

Our revised materiality levels are as follows:

	Original £000	Revised £000
Overall materiality	1,913	1,869
Clearly trivial reporting de minimis	96	93

Overall materiality has been set at 2% of actual expenditure for the year ended 31 March 2015.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Management Committee at its meeting in December 2014.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to the following outstanding matters:

- completion of our internal review and quality control procedures;
- completion procedures including subsequent events review;
- approval of the Statement of Accounts, Annual Governance Statement and letter of representation by the Management Committee; and
- receipt of the final signed Statement of Accounts, Annual Governance Statement and the management representation letter.

Subject to the satisfactory resolution of these matters we expect to issue an unqualified audit opinion.

Accounting issues

We identified no material accounting issues, but we would like to draw to your attention the following matters resulting from our work to assist you in fulfilling your governance responsibilities:

Rebate revenue recognition

Many of ESPO's contracts with suppliers contain retrospective rebate agreements. Under the terms of these agreements, ESPO is paid back an agreed percentage of their total spend over an agreed period by the supplier. Rebates are always paid at the end of the contract period, which can vary from a few months to a year, and may span more than one financial period.

In 2014/15, rebate income recognised within the financial statements is approximately £5.87m. The amount recognised in 2013/14 was around £5.05m.

ESPO monitors total spend with each supplier on a monthly basis. At the end of the contract period, the amount of rebate owed to ESPO is calculated based on the percentage outlined in the contract. The supplier pays the rebate once it receives the sales invoice raised by ESPO.

At year end, the rebate is recognised as a debtor because an invoice has been raised to the supplier based on the amount of rebate due to ESPO. The cash is accounted for in the period in which it is received.

There are no material accounting issues to draw to your attention.

However, we have highlighted on the next few pages some of the key issues we have identified in our audit for you to consider.

The level of your reserves continues to be strong. This includes your General Fund and your Earmarked Reserves, which are held for specific future purposes.

We did not identify any accounting adjustments during the audit.

Each year, some cash is received after ESPO closes its accounts in mid-May, meaning it is recorded in the following financial year. This approach is consistent with that applied in previous years. Management has estimated that approximately £236,000 of rebate income related to 2014/15 has been received after the accounts were closed, meaning that this will be accounted for in 2015/16 instead. As this happens each year, the overall impact on ESPO's surplus on a yearly basis is unlikely to be material.

The Financial Reporting Council published an article dated 8th December 2014 urging clarity in the reporting of complex supplier arrangements. They also noted that they expect to see high quality disclosure of this area in future accounts. We have worked with management to ensure that there is adequate disclosure of ESPO's accounting policy for rebate income within the 2014/15 accounts.

As a result ESPO's accounting policy has been updated in the 2014/15 accounts to include the following:

“Rebates are recognised where they can be reliably measured and agreed with the supplier and are retrospective. Cash is accounted for in the period it is received.”

Gas accruals

The Committee procures gas on behalf of its customers from Total Gas. Because ESPO does not have access to its customers' meters, accruing for gas used but not billed would be costly, and gas costs are therefore accounted for on a cash basis.

We checked that the volumes of gas used and the number of contracts is reasonably constant. On this basis, the impact on ESPO's surplus is unlikely to be material because it is a small percentage of gas consumed. The approach adopted this year is consistent with previous years.

Direct sales cut-off

Some of the goods that ESPO sells to customers are through direct sales, rather than being from warehouse inventory. Under these arrangements, the customer orders directly from the supplier and the goods are delivered directly to the customer.

ESPO receives the sales invoice from the supplier, and subsequently raises a sales invoice to the customer. It is upon receiving the invoice that ESPO is made aware of the order, so it is difficult to know what has been ordered directly from suppliers around year end.

During our expenditure sample testing, we identified some cut-off errors, where the goods had been ordered in 2013/14 and the supplier invoice dated also in 2013/14. Because ESPO does not receive confirmation from its customers at year end of how much has been ordered, no accrual is made for these transactions. Management told us that it would be very costly and resource-intensive to request confirmations from each customer.

This is a cyclical process and the impact on ESPO's accounts is unlikely to be material because it is a small percentage of the annual income and expenditure that is ordered around year end. The approach adopted this year is consistent with previous years.

We ask you to confirm in the letter of representation (Appendix) that you are satisfied with the appropriateness of accounting for the above three arrangements on a cash, rather than an accruals, basis.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. We are also required to report to you material amendments made to your draft accounts as a result of the audit.

We are pleased to report that our work there are no uncorrected misstatements.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management and the Audit and Standards Committee to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered. Please refer to the management representation letter in the Appendices.

Judgments and accounting estimates

ESPO is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Valuation of non-current assets

The valuation of non-current assets is an area of significant judgement within the accounts. You have used an independent valuer from Leicestershire County Council to revalue your main office and warehouse building as at 31 March 2015. This resulted in a valuation gain of £0.5m to £10.5m. We have used our specialist valuation team to review the assumptions used by the valuer who assessed these assumptions against property valuations data. We also performed work to assess the reasonableness of the floor plans used in the valuer's assessment, as it is this base data that drives the valuation. We have confirmed your approach is reasonable.

Accruals

Accruals for expenditure and income are raised where an invoice has not been received or raised at the year-end, but the Committee knows that there is a liability to be met which relates to the current year. This involves a degree of estimation. Detailed testing was performed on significant accruals. No misstatements were identified from this work.

Bad Debt Provision

Your Bad Debt Provision is calculated by assessing the potential recoverability of invoices which are beyond the due date for payment. There is an inherent level of judgement involved in calculating this provision, which is £48k as at 31 March 2015 (£135k as at 31 March 2014). We have considered the recoverability of debtors and have not identified any significant concerns in the way that you have calculated your bad debt provision.

Overall we found your significant judgements and accounting estimates to be reasonable.

Management representations

The final draft of the representation letter that we ask management to sign is attached in the Appendices.

Financial standing

You identified no material uncertainties related to events and conditions that may cast significant doubt on the Committee's ability to continue as a going concern and that in overall terms there are sufficient resources available to meet your commitments for at least a 12-month period after the projected date of our audit opinion. We concluded that this consideration is appropriate.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

To confirm completeness we performed a range of additional procedures to identify potential related party transactions and did not identify matters during the course of our work.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

We ask management to send us a letter of representation before we sign our audit opinion. A draft of that letter is included in Appendix 1.

We are required to demonstrate our independence by professional standards. Maintaining our independence is important to us in delivering you a robust external audit.

We have concluded that we are independent and comply with the relevant UK regulatory and professional requirements.

Relationships between PwC and the Committee

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Committee or investments in the Committee held by individuals.

Employment of PricewaterhouseCoopers staff by the Committee

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Committee as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Committee.

Services provided to the Committee

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices. We have not undertaken any non-audit services at the Committee during 2014/15.

Fees

The analysis of our audit fees for the year ended 31 March 2015 is included on page 17.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of the Committee, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Management Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

Local Authorities, including ESPO, are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”. The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In meeting our statutory responsibilities relating to economy, efficiency and effectiveness, the Audit Code of Audit Practice requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out only as much work as is appropriate to enable them to give a safe VfM conclusion.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Based on the work we have undertaken, we anticipate issuing an unqualified value for money opinion.

You are required to produce an Annual Governance Statement (AGS). We reviewed your AGS and found no areas of concern to report.

We anticipate issuing an unqualified value for money conclusion.

Last year, you recognised several areas for improvement and in 2014/15 you have reported good progress against these. In the 2014/15 Annual Governance Statement, you have noted that the majority of the areas have been completed, some require ongoing commitment and development, and one has progressed but some challenges remain. Within your Annual Governance Statement this year, you identified the following key areas for improvement:

- **Internal audit function** - implement actions to ensure the internal audit function fully conforms to the Public Sector Internal Audit Standards
- **Business Continuity** - up to date Business Continuity plans need to be implemented
- **Succession plans** - succession planning for key posts needs to be implemented
- **Stakeholders** - a database of stakeholders that need to be engaged with needs to be created.
- **Forward planning** - forward plan of consultation and engagement with stakeholders needs to be created.

These areas form part of your plan for improving corporate governance throughout the organisation and we are satisfied that you have proposals to achieve these improvements.

We anticipate issuing an unqualified value for money conclusion.

We identified no significant deficiencies in internal control to report to you.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

No significant deficiencies in internal control were identified through our work.

We ask that the Management Committee, as those charged with governance, confirm to us that there are no additional matters relating to fraud that should be brought to our attention.

As part of work to address the risk of fraud, we use data auditing techniques to select journal entries which we believe have a greater risk of containing fraud or error.

We identified no issues to report to you as part of this work.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Management Committee

Your responsibility as part of your governance role is:

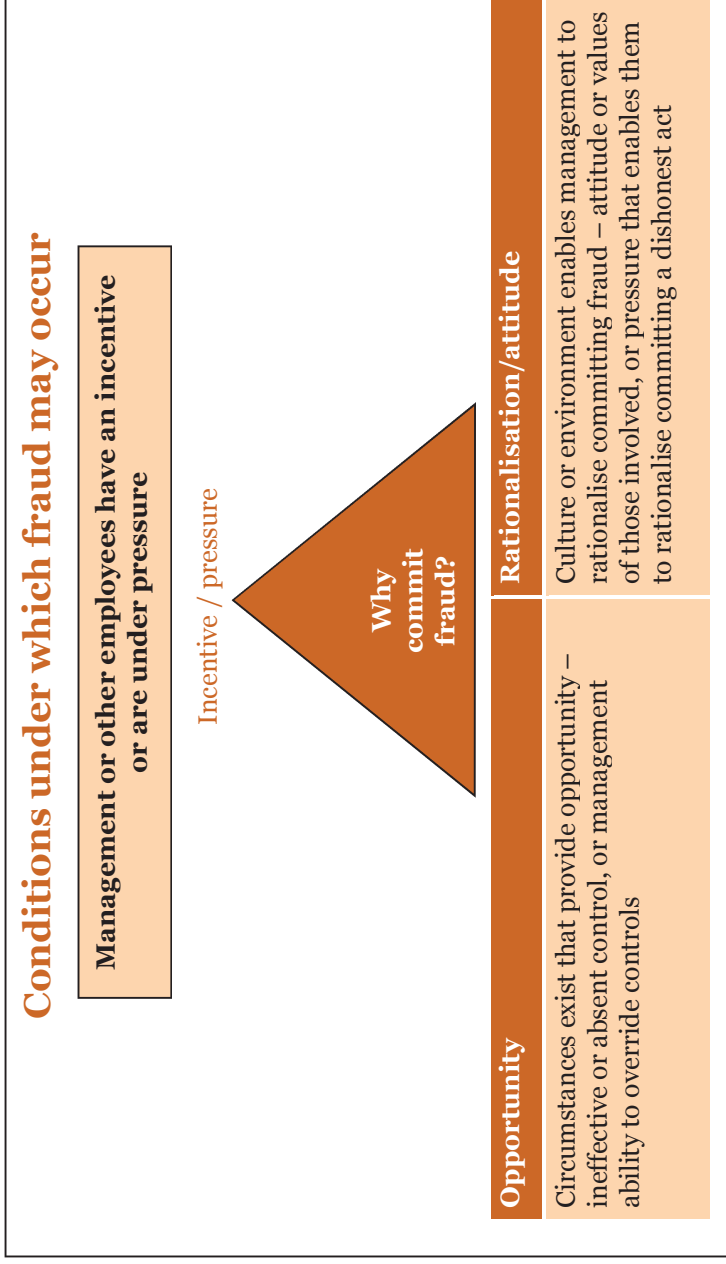
- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Management Committee in December 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.



Fees update

Fees update for 2014/15

We reported our fee proposals in our plan. Our actual fees included a variance for £2,000 representing additional time and internal specialist consultation required to conclude on ESPO's rebate recognition policy. This has been agreed with ESPO management and we have written to Public Sector Audit Appointments (PSAA) for approval of the additional fee. We are awaiting a response to our request.

Our fees charged were therefore:

	2014/15 outturn (£)	2014/15 fee proposal (£)
Audit work performed under the Code of Audit Practice:		
- Statement of Accounts	16,202	14,202
- Value for Money conclusion		
Total	16,202	14,202

Appendices

There are a number of matters on which we are required to ask for a written representation.

A draft letter of representation is included in this appendix.

Appendix 1: Letter of representation

PricewaterhouseCoopers LLP

Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Your Ref: ESPO RB 2014/15

Dear Sirs

Representation letter – audit of Eastern Shires Purchasing Organisation (the “Organisation”) Statement of Accounts for the year ended 31 March 2015

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Committee give a true and fair view of the affairs of ESPO as at 31 March 2015 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Treasurer for preparing the financial statements as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the Committee and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Committee with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

Eastern Shires Purchasing Organisation

PwC • 20

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.

Significant assumptions used by the Committee in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.

The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the statement of accounts, including non-compliance.

Information Provided

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Committee's auditors, are aware of that information.

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of relevant management and Committee meetings;
- additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to persons within the Committee from whom you determined it necessary to obtain audit evidence.

So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Committee's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the selection and application accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the Committee's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud;
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Committee and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the Statement of Accounts;
- all information in relation to allegations of fraud, or suspected fraud, affecting the Committee's Statement of Accounts communicated by employees, former employees, analysts, regulators or others; and
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Committee conducts its business and which are central to the Committee's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

I confirm that the attached appendix to this letter is a complete list of the Committee's related parties. All transfer of resources, services or obligations between the Committee and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

No transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 have been entered into.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the Committee participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Committee have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the Committee's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Committee or any associated company for whose taxation liabilities the Committee may be responsible.

Bank accounts

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Going Concern

An assessment has been made of the financial health of the Committee for a period of at least one year from the approval of the financial statements.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Accounting estimates: measurement processes, assumptions, disclosures and effects of subsequent events

Regarding accounting estimates that were recognised in the Statement of Accounts, I confirm that:

- the Committee has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Accounting in the United Kingdom 2014/15;
- measurement processes were consistently applied from year to year;
- the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Committee, where relevant to the accounting estimates and disclosures;
- disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15; and
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against inventory, and property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Committee's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the statement of accounts.

I confirm that the Committee does not have plans to implement any redundancy/early retirement programmes for which we should have made provision in the Statement of Accounts.

Using the work of experts

I agree with the findings of the Leicestershire County Council valuations experts in evaluating the valuation of our non-current assets, experts in providing estimates of fair values in respect of financial liabilities. I have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Committee did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2015, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2015 have been properly valued and that valuation incorporated into the financial statements.

The value at which assets and liabilities are recorded in the Balance Sheet is, in the opinion of the Committee, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action. Any significant changes in those values since the date of the financial statements have been disclosed to you.

The Committee has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.

In my opinion, on realisation in the ordinary course of the business, the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Committee has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

The Committee has satisfactory title to all assets and there are no liens or encumbrances on the Committee's assets, except for those that are disclosed in the Statement of Accounts.

I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Cash Accounting:

I am satisfied that in relation to issues stated regarding rebate revenue recognition, gas accruals and direct sales cut-off in the ISA260, it is appropriate that these are accounted for on a cash basis and that due to their nature, accounting for these on an accruals basis would not result in a material difference.

As minuted by the Management Committee at its meeting on 28 September 2015

.....

Consortium Treasurer

For and on behalf of Eastern Shires Purchasing Organisation

Date

Eastern Shires Purchasing Organisation

Appendix 1 - Related parties and related party transactions

In the event that, pursuant to a request which Eastern Shires Purchasing Organisation (ESPO) has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Eastern Shires Purchasing Organisation (ESPO) agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Eastern Shires Purchasing Organisation (ESPO) shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Eastern Shires Purchasing Organisation (ESPO) discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Eastern Shires Purchasing Organisation (ESPO) and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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130610-142627-JA-UK

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This document has been prepared only for Eastern Shires Purchasing Organisation (ESPO) and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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130610-142627-JA-UK

Type of related party relationship

Client response and Details

List all parties (both persons and entities) with control¹ or joint control² of the reporting entity.

Where these parties are persons:

- List their close family members³, and any other entities controlled¹ or jointly controlled² by these persons or their close family members³.
- List the entities over which these persons or their close family members³ have significant influence⁴ (either by holding key management positions⁵ or otherwise). Include entities that are controlled or jointly controlled by those entities.

List all parties (both persons and entities) with significant influence⁴ over the reporting entity.

Where these parties are persons:

- List their close family members³, and any entities controlled¹ or jointly controlled² by these persons or their close family members³. Include entities that are controlled or jointly controlled by those entities

List all key management personnel⁵ of the reporting entity.

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.

The Leadership Team consist of:

- The Director; John Doherty,
- The Assistant Director (Procurement and Compliance); Kristian Smith
- The Assistant Director (Finance & IT); Clive Pitt
- The Assistant Director (Sales & Marketing); Trevor Phipps
- The Assistant Director (Operations); David Godsell

Key Management personnel:
Commercial Manager; Katherine Shaw

¹ An individual controls the company when the individual is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company [IFRS10].

² Joint control is where two or more parties are bound by a contractual arrangement, and the contractual arrangement gives two or more of those parties joint control of the company [IFRS11].

³ Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner [IAS 24].

⁴ Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies [IAS28].

⁵ Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity [IAS24].

Organisation name: Eastern Shires Purchasing Organisation

List key management personnel's⁵ close family members⁶, and any other entities controlled⁷ or jointly controlled⁸ by key management personnel or their close family members⁹. Include entities that are controlled or jointly controlled by those entities.

Commercial Manager; David Kwiatek
Trading Manager; Kevin Willsher
Operations Manager; Barry Walker

List all entities within the reporting entity's group – parents, subsidiaries, and fellow subsidiaries.

[No parties identified]

List the reporting entity's joint ventures and associates (and their subsidiaries). Also list other group members' joint ventures and associates (and their subsidiaries).

[No parties identified]

If the reporting entity is itself a joint venture:

- List all venturers, these venturers' group members and that group's associates or joint ventures).

If the reporting entity is itself an associate:

- List all investing entities, these investing entities' group members and that group's joint ventures.

List all post-employment benefit plans for the benefit of the reporting entity, or any entity disclosed within the above questions.

The Defined Benefits Pension Fund is administered by Leicestershire County Council, ESPO's servicing authority.

If the reporting entity is itself a post-employment benefit plan:

- List all sponsoring employers.

If the reporting entity is required to adhere to the UK Financial Conduct Authority ("FCA")'s Listing Rules ("LR") (i.e., the reporting entity has UK premium or standard listing, or is a subsidiary of a UK premium or standard listed entity), additional related parties are defined by the FCA's LR:

Not applicable

- A substantial shareholder. This is any person who is, or was within the last 12 months, entitled to exercise or control the exercise of 10% or more of votes able to be cast

on all or substantially all matters at general meetings of the company (or of any company that is its parent, subsidiary or fellow subsidiary undertaking). Certain persons are excluded from this definition – see guidance footnote⁶

- *A director (including a shadow director and a person who was a director or shadow director within the last 12 months) of the company or any company that is (and, if they ceased to be such, was while they were a director or shadow director of such other company) its subsidiary undertaking or parent undertaking, or a fellow subsidiary undertaking of its parent undertaking.*
- *A person (individual or legal entity) exercising significant influence.*
- *An associate of a substantial shareholder, director or person exercising significant influence, as follows:*
 - *In relation to an individual, this includes the following:*
 - *An individual related party's spouse, civil partner or child (together 'the individual's family').*
 - *The trustees (acting as such) of a trust of which the individual or any of the individual's family is a beneficiary or discretionary object, other than certain trusts that are occupational pension schemes or employees' share schemes.*
 - *A company in whose equity shares the individual and/or members of the*

⁶ The definition of a substantial shareholder disregards any voting rights that the person exercises (or controls the exercise of) independently in its capacity as bare trustee, investment manager, collective investment undertaking or a long-term insurer in respect of its linked long-term business if no associate of that person interferes by giving direct or indirect instructions, or in any other way, in the exercise of such voting rights (except to the extent any such person confers or collaborates with such an associate that also acts in its capacity as investment manager, collective investment undertaking or long term insurer). [LR App 1]

individual's family (taken together) have an interest that enables them (or would do so on the fulfilment of a condition or the occurrence of a contingency), directly or indirectly, to exercise or control the exercise of 30% or more of votes at general meetings on all, or substantially all, matters; or appoint or remove directors holding a majority of voting rights at board meetings on all, or substantially all, matters.

For the purpose of the above bullet point, if more than one director of the listed company, its parent or any of its subsidiaries is interested in the equity securities of another company, then the interests of those directors and their associates are aggregated when determining whether that company is an associate of the director.

- *In relation to a company, this includes the following:*
 - *Any other company that is its subsidiary undertaking or parent undertaking or fellow subsidiary undertaking.*
 - *Any company whose directors are accustomed to act in accordance with the substantial shareholder's or person exercising significant influence's directions or instructions.*
 - *Any company in the capital of which the substantial shareholder or person exercising significant influence and any other company that is an associate taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency*

Organisation name: Eastern Shires Purchasing Organisation

be) able to exercise or control the exercise of 30% or more of votes at general meetings on all, or substantially all, matters; or appoint or remove directors holding a majority of voting rights at board meetings on all, or substantially all, matters.

The Listing Rules also limit the nature of the transactions which must be reported if entered into with any of these parties, and provide certain exemption criteria for transactions. In excess of these being required to be reported within the reporting entity's financial statements (LR 11.1.10R), there are also other required actions the reporting entity and/or listed entity must complete – please seek legal advice if you are unaware of these requirements.

Organisation name: Eastern Shires Purchasing Organisation

If the reporting entity is required to adhere to the Alternative Investment Market ("AIM") Rules (i.e., the entity is AIM listed), additional related parties are defined by the AIM Rules:

N/A

- a) **any person who is a director of the reporting entity or of any company which is its subsidiary or parent undertaking, other subsidiary undertaking of its parent company;**
- b) **Any person with a holding of 3% or more in any class of AIM security in the reporting entity (excluding treasury shares);**
- c) an associate of (a) or (b) being;
 - i. **the family of such a person;**
 - ii. **the trustees (acting as such) of any trust of which the individual or any of the individual's family is a beneficiary or discretionary object (other than a trust which is either an occupational pension scheme as defined in regulation 3 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, or an employees' share scheme which does not, in either case, have the effect of conferring benefits on persons all or most of whom are related parties).**
 - iii. **any company in whose equity shares such a person individually or taken together with his or her family (or if a director, individually or taken together with his family and any other director of that company) are directly or indirectly interested (or have a conditional or contingent entitlement to become interested) to the extent that they are or could be able:**
 - **to exercise or control the exercise of 30% or more of the votes (excluding treasury shares) able to be cast at general meetings on all, or**

Organisation name: Eastern Shires Purchasing Organisation


- **substantially all, matters; or**
- **to appoint or remove directors holding a majority of voting rights at board meetings on all, or substantially all, matters;**

- iv. **any other company which is its subsidiary undertaking, parent undertaking or subsidiary undertaking of its parent undertaking;**
- v. any company whose directors are accustomed to act in accordance with (a)'s directions or instructions; any company in the capital of which (a), either alone or together with any other company within (iv) or (v) or both taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency be) interested in the manner described in (iii);

- d) any person who was a director of the reporting entity or any of its subsidiaries, sister or parent undertakings or a substantial shareholder within the twelve months preceding the date of the transaction.

The AIM Rules also limit the nature of the transactions which must be reported if entered into with any of these parties, and provide certain exemption criteria for transactions. In excess of these being required to be reported within the reporting entity's financial statements (AIMR19), there are also other required actions the reporting entity and/or listed entity must complete – please seek legal advice if you are unaware of these requirements.

I confirm that the above listing is, to the best of my knowledge having made appropriate enquiries of others complete and all information is accurate.

Signature:  Date: 11 / 9 / 15

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ESPO MANAGEMENT COMMITTEE – 28 SEPTEMBER 2015

DIRECTOR'S PROGRESS UPDATE

Purpose of Update

1. The purpose of this update is to inform members of the actions and progress made since the last Management Committee meeting held on 24 June 2015.

Overall Financial Performance

2. Overall financial performance for the four months to July 2015 can be summarised as:
 - Total sales to July were strong at £33.1m and are ahead of a challenging budget of £31.7m. The increase on prior year is down to higher store sales principally as a result of deliveries being made on time this year.
 - The key drivers of catalogue sales this year over the prior year are the increase of on time deliveries during our peak period and the phasing of Easter holidays being more favourably weighted in 2015/16.
 - a) Sales were impacted by phasing of the Easter holidays within the academic year, and a focus on customer service.
 - b) Our pricing strategy was to hold the prices on the key top selling lines but to make marginal increases in the lower volume less price sensitive lines. Our overall increase was 2.9% in the budget (£46m budget versus £44.67m last year); this was comprised of a 1.57% price increase and a 9.33% volume increase, equivalent to £1.05m.
 - c) The broader benefits of being on time will show further in the form of better controlled overheads and improved cash flow, as well as the valuable but softer benefits in terms of morale and customer perception.
 - Rebate income is £1.49m compared to budget of £0.97m and is tracking ahead of the prior year for the year to date to July.
 - Overall surplus for the four months is £1.36m compared to a budget of £1.19m.

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

3. Key figures underlying the total sales to 31 July 2015 are as follows:

	<u>YEAR TO DATE</u>		
	ACTUAL	BUDGET	PRIOR
	£m	£m	YEAR
			£m
<u>SALES</u>			
STORES	17.428	17.878	16.091
DIRECT	6.601	6.352	6.603
GAS	6.787	5.634	6.630
CATALOGUE ADVERTISING	0.788	0.770	0.735
REBATE INCOME	1.486	0.973	1.029
MISCELLANEOUS INCOME	0.023	0.050	0.012
<u>TOTAL SALES</u>	<u>33.113</u>	<u>31.657</u>	<u>31.100</u>

4. At the June Management Committee, it was resolved that the dividend surplus for 2015 be held at the prior year distribution level of £1.5m.
5. The balanced scorecard for July is included in Appendix 1.

ESPO Internal Developments

Change Programme (formerly referred to as Business Strategy Projects)

6. The peak trading period processes up to 50% more customer orders than non-peak trading months. In the past, this has often caused difficulties in our operations and customer service as this big spike in demand has proved challenging to service. The change programme has made significant alterations to the way we handle peak and it felt very different this year. The months of hard work, planning and testing made a massive difference with the business reaping the rewards with a calmer, more planned and organised working environment across the board.
7. A significant part of the planning involved the utilisation of a seasonal warehouse to pick and deliver some fast moving lines on our behalf. CEVA's Daventry operation complemented the picking and shipping from Grove Park. CEVA picked and shipped about 4k lines per day, as expected, and on time. This is the first year ESPO has complemented the capacity at Grove Park and its success is a credit to those key staff within Operations and IT who made this happen.
8. The changes outlined above complemented core alterations made to the design and layout of our warehouse enabling us to pick, pack and ship more efficiently right through the year and, in particular, summer peak.
9. A Phase 2 end of project report will be presented to the Management Committee at its next meeting in December.

10. The ESPO Leadership Team has selected four projects to commence in phase three of the Change Programme. These are building refurbishment, improving the customer experience (a continuation from phase two), supply chain management and the enterprise resource management software upgrade.

Servicing Authority Service Level Agreement (SLA)

11. I met with Leicestershire County Council's Assistant Director - People & Transformation in July to review the servicing authority's SLA with ESPO. This concluded the SLA position for 2014/15 and agreed the shape of the SLA for 2015/16.
12. In late May, ESPO's new HR Business Partner was put in place, along with an additional HR Advisor providing full-time provision of HR support. This additional resource will provide ESPO with the skilled resource to manage sickness, PDRs, training and recruitment.
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 12.71 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.

	1/6/14 – 31/5/15	1/7/14 – 30/6/15	1/8/14 – 31/7/15
Days lost per FTE	11.84 days	12.25 days	12.71 days
Percentage of days lost due to sickness	4.70%	4.9%	5%

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. 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 Living Wage. It has been outlined that it will increase to 60% of the national median wage by 2020. A detailed discussion paper regarding the potential impact of the Living Wage will be submitted in due course.

Sales & Marketing

Campaigns, activities and newsletters

17. In June, ESPO exhibited at the Public Sector Show at the ExCel Centre, London. The show provided plenty of opportunities to engage with new and existing customers from all areas of the Public Sector and provided framework and procurement leads for follow up over the coming weeks. ESPO delivered a well-attended seminar and discussion on procurement of social care and health services, a strategic area of expenditure within local government.
18. ESPO also exhibited at the Chartered Institute of Housing Annual Conference and Exhibition in Manchester, the leading social and affordable housing event in the UK which brought together housing associations and Local Authorities. Customers were able to discuss frameworks on how Local Authorities, Housing Associations, and Registered Social Landlords can benefit from using ESPO procurement solutions.
19. A 'Corporate Update' newsletter was issued in June with articles about ESPO's active SME supplier management strategy, the launch of the new MSTAR2 framework for agency staff and the Gas framework extending another three years.
20. The quarterly 'Education Update' newsletter was also distributed with articles about keeping summer furniture ordering hassle free, schools saving 50% on waste and recycling, and ICT changing the classroom.

Customer service

21. The Customer Service change programme has created a more stable peak environment for staff and customers with feedback noting our much improved customer service levels. Feefo customer feedback continues to rate ESPO at 97% customer satisfaction levels with 63% rating the service as 'Excellent'.
22. The order acknowledgment process is now fully implemented having been rolled out across all schools in May. This allows ESPO to confirm customer items and delivery dates of their orders. A key benefit is the reduced numbers of customer calls chasing and querying orders and an improved level of service.
23. Officers at ESPO have been working with Lincolnshire County Council to resolve the issue of duplicate orders which became apparent on its implementation of Agresso. While Agresso orders were being processed through the system, some customers were duplicating their orders by contacting ESPO directly due to processing issues caused by the implementation creating delays. We are now looking to manage returns generated by duplication of Directs orders being delivered in September.
24. Plans are underway to undertake a survey of c.10,000 Public Sector customers across member and non-member areas in September. The last survey of this kind was undertaken in 2009, and since that time customer

expectations from within that sector have changed. Survey feedback is expected in December and will help inform future plans and strategy, to better focus framework messages, and capture future procurement challenges expected by the sector.

ESPO Catalogue

25. Plans are already underway in developing the 2016/17 ESPO catalogue. Category plans have been developed by Product Managers covering a review of their product ranges, highlighting improved supplier management, increasing product profitability, developing SmartBuy ranges and driving page sales. All plans will contribute towards delivering our 2016/17 MTFS.

Recognition and awards

26. The UK Public Sector Communication Awards celebrate and reward excellent communication strategies and campaigns, teams and individuals in local and national government, emergency services and not-for-profit bodies from across the UK. ESPO attended the presentation which took place in London on 9 July and while we did not take home an award, we were shortlisted in two areas of work for which we are rightfully proud:
- Website of the Year
ESPO was shortlisted in this category for creating a brand new website for www.espo.org (in collaboration with Control F1) launched August 2014. The new website combined the old espo.org, dealing direct, academies, ICT and energy websites into one comprehensive website for customers and staff.
 - Media Relations Campaign of the Year
This was in collaboration with the work done with Skout PR.

Resources Implications

27. None arising directly from this report.

Recommendation

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

Officer to Contact

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

Appendices

Appendix 1 - Balanced scorecard

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Summarised Balanced Scorecard Jul 15

Financial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Total Sales (inc Gas & Rebates)	£10,348,006	£10,619,363	↓ -2.6%	£33,113,119	↑ 4.6%
Total Gross Margin	£2,710,164	£2,418,921	↑ 12.0%	£7,519,166	↑ 2.9%
Total Expenditure	£1,797,259	£1,518,712	↑ 18.3%	£6,134,208	↑ 0.4%
Surplus	£912,905	£900,209	↑ 1.4%	£1,384,958	↑ 15.8%
Net Profit Margin %	8.82%	8.48%	↑ 0.34pp	4.18%	↑ 0.40pp

Rolling 12 months.....

Net Profit Margin %	2.95%	2.01%	↑ 0.94pp
Asset Turnover	4.2	4.4	↓ -0.1
ROCE	12.49%	8.74%	↑ 3.75pp

Full year up to Jun 15 data....

	No. FTE at Jun 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	333	4,083	12.3	8.3	↓ -3.9

Highlights

Finance & IT

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Proportion of E Orders	18%	20%	↓ -1.54pp	19%	↓ -0.85pp
Proportion of E Invoices	26%	20%	↑ 6.49pp	24%	↑ 4.45pp
Web Sales	£1,182,810	£870,052	↑ 35.9%	£3,139,386	↑ 28.3%

Sales & Marketing

	Actual	Budget /LY	Var	YTD Actual	YTD Var
New Customers	162	80	↑ 82	460	↑ 100
FeeFo Feedback	97%	95%	↑ 2.00pp	96%	↑ 1.00pp
Calls Abandoned	2.8%	3.0%	↑ 0.23pp	2.8%	↑ 0.16pp

Operations

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Lines picked per hour	29	22.5	↑ 6	26	↑ 4
Agency Cost	£218,330	£103,186	↓ -111.6%	£489,524	↓ -59.4%
No. of staff forum meetings	2	1	↑ 1.0	5	↑ 1.0

Procurement

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Wages & Salaries	£182,695	£231,608	-21.1%	£750,300	-12.3%
% of challenges	0%	10%	↑ 10.0%		

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ESPO MANAGEMENT COMMITTEE – 28 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, a report on which can be found elsewhere on this agenda.
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

The Committee is asked to approve the Annual Governance Statement and draft Statement of Accounts for 2014/15.

Equalities and Human Rights Implications

13. None

Background Papers

14. None

Officers to Contact

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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

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	
<u>Movement in Reserves during 2013-14</u>											
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	
<u>Movement in Reserves during 2014-15</u>											
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			Note:
Gross Expenditure	Gross Income	Net (Income) Expenditure	Gross Expenditure	Gross Income	Net (Income) Expenditure	
£000	£000	£000	£000	£000	£000	
31,680	(43,562)	(11,882)	32,903	(44,659)	(11,756)	
44,637	(52,014)	(7,377)	40,502	(48,770)	(8,268)	
76,317	(95,576)	(19,259)	73,405	(93,429)	(20,024)	
10,400		10,400	11,306		11,306	24
271		271	263		263	30
682		682	651		651	
1,926		1,926	1,949		1,949	
1,600		1,600	1,456		1,456	
366		366	281		281	
715		715	907		908	
129		129	147		147	
92,406	(95,576)	(3,170)	90,365	(93,429)	(3,063)	
1,506	(11)	1,495	1,457	(10)	1,447	8
399	(12)	387	378	(26)	352	9
94,311	(95,599)	(1,288)	92,200	(93,465)	(1,264)	
		0			(592)	10
		0			(592)	
		(1,288)			(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 lease 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:								
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
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
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>								
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)**

<u>2013/14 comparative figures</u>	Usable Reserves							Total Movement in Usable Reserves	Movement in Unusable 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		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:									
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>									
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	
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>									
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	(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)
<u>1,495</u>	Total	<u>1,447</u>

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)
<u>387</u>	Total	<u>352</u>

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

Depreciation:

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

Capital Commitments:

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	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
	£000	£000	£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	<u>200</u>	<u>165</u>
Comprising:		
• Gross carrying amount	602	648
• Accumulated amortisation	<u>(402)</u>	<u>(483)</u>
	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
2,035	<u>Current Debtors</u>	
7,709	Reserved Debtors	1,687
(135)	Sundry Debtors	6,475
	Less provision for bad debts	(48)
9,609	Total	8,114
	<u>Analysis of Bad debts Provision</u>	
(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)	Net written out of the cost of non-current assets consumed in the year	189
	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 £000		2014-15 £000	
(551)	Non cash Transactions:	(356)	
(10)	Depreciation of non-current assets		
(561)	Movement on short-term accumulating compensated absences adjustments	8	(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			2014/15		
Stores £000	Central Purchasing £000	Total £000	Stores £000	Central Purchasing £000	Total £000
(43,574)	(52,073)	(95,647)	(44,671)	(48,808)	(93,479)
0	12	12	0	26	26
11	72	83	12	39	51
(24)	0	(24)	(27)		(27)
(43,587)	(51,998)	(95,576)	(44,686)	(48,744)	(93,430)
40,182	53,082	93,265	42,093	49,223	91,316
(400)	(100)	(500)	(400)	(100)	(500)
0	(112)	(112)	0	(119)	(119)
0	(3)	(3)	0	(3)	(3)
(523)	(62)	(585)	(498)	(62)	(560)
(383)	(16)	(399)	(358)	(20)	(378)
0	0	0			0
0	0	0	(13)	(28)	(41)
452	99	551	271	85	356
9	1	10	(4)	(4)	(8)
145	35	180	15	288	303
39,482	52,924	92,406	41,107	49,259	90,366
(4,105)	935	(3,170)	(3,579)	515	(3,064)

Income as per ESPO Management Accounts

Interest receivable included under Sales Income

Disposals of non current assets included under Sales Income

Interest credited to Earmarked Funds

Gross Income as per the Comprehensive Income and Expenditure statement**Expenditure as per ESPO Management Accounts**

Capital elements of the premises loan repayments included under Premises

Capital elements of the leased assets repayments included under Transport

Capital elements of the leased assets repayments included under Office Expenses

Amounts transferred to Earmarked, Repairs and Renewals and Maintenance Reserves for future capital expenditure included under Equipment

Interest payable included under Other Expenses

Non current assets purchases included under Transport

Non current assets purchases included under Equipment

Plus expenditure not included in Management Accounts. Included in the Comprehensive Income and Expenditure Statement:

Depreciation of non current assets and amortisation of intangible assets included under Equipment

Compensated absences included under Employees

Earmarked Reserves revenue expenditure included under equipment

Gross Expenditure as per the Comprehensive Income and Expenditure statement**Surplus on Net Cost of Services as per ESPO Statement of Accounts**

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
<u>2014/15</u>	£	£	£	£	£	£
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 Managers 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 <i>Code of Audit Practice</i> 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:

<u>Analysis of Sundry Debtor Balances</u>	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:

<u>Analysis of sales to member authorities.</u>	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.

<u>Analysis of Supplier Account Balances.</u>	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:

<u>Analysis of purchases from member authorities.</u>	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	1,972

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.

<u>Financing of capital expenditure on non current and intangible assets:</u>				
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
0	0	Financed from Vehicle and Equipment Reserves	25	55
0	0		0	0
74	158		47	74

<u>Capital expenditure commitments:</u>		
	<u>31 March, 2014</u> £000	<u>31 March, 2015</u> £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 be 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:

<u>31 March 2014</u>		<u>31 March 2015</u>
£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
Minimum lease payments	£000 19	£000 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	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	Estimated maximum exposure at 31 March 2015
	£000	%	%	£000	£000
Bank Deposits	443				0
Investments (see Note 15)	9,330				0
Customers	6,320	1.14	0.89	55.9	45.5
				<u>55.9</u>	<u>45.5</u>

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	31 March 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:		
<ul style="list-style-type: none"> • Leicestershire County Council 	8,000	7,500
Analysis of Maturity of this loan:		
<ul style="list-style-type: none"> • Between one and two years • Between two and five years • Between five and ten years • In ten years or more 	500 1,500 2,500 3,500	500 1,500 2,500 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 than 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 into "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 (PWL B)

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.

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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: <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Service/Business Plans supported by relevant strategies • Communication Strategy • Performance trends and reports on the progress of service delivery • Formal complaints policy and procedures that inform positive service improvement • Comparison of information on ESPO’s economy, efficiency and effectiveness of services • Instruction on how to measure Value for Money 	<ul style="list-style-type: none"> • Outcomes are delivered through Assistant Director’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. 	

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

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

- Ensure effective stewardship throughout the organisation and be clear about member and officer functions and of the roles and responsibilities of the scrutiny function;
- Ensure a constructive working relationship exists between organisation members and officers and that the responsibilities of members and officers are carried out to a high standard;
- Ensure relationships between the organisation, its partners and the public are clear so that each knows what to expect of the other.

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Job descriptions for: Director, CFO; Head of Internal Audit Service, AD Finance • Member/Officer Protocol • Constitution • Scheme of delegation, standing orders and financial regulations • Effective Director and Chairman pairing • Compliance with Role of Chief Financial Officer and Role of Head of Internal Audit • Monitoring officer provisions • Conditions of employment including; appraisal arrangements; pay and conditions policies; structured pay scales • Effective performance management system including progress on Key Performance Indicators and identifying areas of improvement • Business and financial planning process 	<ul style="list-style-type: none"> • 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 • Consortium Secretary and Consortium Treasurer 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 	<p>.</p> <p>Implement actions to ensure the internal audit function fully conforms to the Public Sector Internal Audit Standards</p>

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

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

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

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Annual Governance Statement • Member and Officers Codes of Conduct • Performance appraisal • Procedures for responding to behaviour complaints • Anti –fraud and anti-corruption policies • Standing orders and financial regulations • Register of Interests and Gifts and Hospitality – members and staff • Ethical awareness training and dealing with conflicts of interest • Communicating shared values with members, staff, the community and partners • Whistleblowing arrangements • Decision making practices/framework • Protocols for partnership working • Code of Corporate Governance 	<ul style="list-style-type: none"> • AGS produced by compiling and scrutinising information from Departmental Self Assessments and assurance from Internal Audit Service. • Members of individual authorities are subject to their own Code of Conduct • Adopted LCC Employee Code of Conduct. ‘Dignity At Work’ Policy and Procedures provides employees with examples of unacceptable behaviour, and is complimented by other HR policies • Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers align employees PDR priorities and objectives to the service, department and ESPO’s priorities. • ‘Leading for High Performance’ programme underpins the approach to performance management and covers importance of maintaining strong ethical governance. • Adopted LCC Anti-Fraud & Corruption Policy, Strategy and Procedures and Anti-Bribery and Money Laundering. • 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 – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Finance and Audit Subcommittee • Internal Audit function • Decision making protocols / records of decisions and supporting materials • Members' and officers' code of conduct • Terms of reference and membership • Training for committee members including information needs to support decision making • Calendar of dates for submitting, publishing and distributing timely reports • Approved Risk Strategy/Policy • Effective counter fraud arrangements • Legal advice provided by officers 	<ul style="list-style-type: none"> • Finance and Audit Subcommittee receive reports on the revenue budget and capital programme and performance reports in relation to targets and commitments and action plans arising from inspection and assessment reports. • Internal Audit Service annual plan of audits provide assurance that the governance, risk management and internal control systems of ESPO are operating effectively. • Terms of References for Committees and decision making protocols have been approved by Management Committee and are detailed in the 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 	<p>Up to date Business Continuity plans need to be implemented.</p>

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

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

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

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Induction programme • Officer training and development plans • Availability and communication of activities • Performance reviews of officers • Workforce Planning • Member training and development 	<ul style="list-style-type: none"> • Induction available to all managers and staff. • Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers at all grades assessed against behaviours which underpin the management competency framework • Performance management and reporting systems in place at various levels, allowing outcomes to be cascaded and linked to individual development plans. • Member meetings with Director on quarterly basis. Also Members are invited to ESPO to review the business and meet officers. • Liaison Committee meetings 	<p>Succession planning for key posts needs to be implemented</p>

PRINCIPLE F: Engaging with stakeholders to ensure robust public accountability

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

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

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Database of stakeholders • Annual report • Communication Strategy • Annual financial statements • Decision making and key documents • Freedom of Information Act publication scheme • ESPO Website • Best practice standards in recruitment and staff terms and conditions 	<ul style="list-style-type: none"> • Full public annual report providing information on outcomes and achievements . • ESPO recognise the importance to consult, involve and listen to stakeholders so that the organisation can be improved and future plans made. • Communication strategy based on a brand survey. • The Accounting 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. 	<p>A database of stakeholders that need to be engaged with needs to be created.</p> <p>Forward plan of consultation and engagement with stakeholders needs to be created.</p>

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)

Governance related internal audit work

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.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

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.

HolAS 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

HolAS 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, a Member was 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
<u>Constitution and Partnership Agreement</u> Finalise agreement to Constitution and Partnership Agreement with individual Members.	Completed	No	Monitoring Officer
<u>Internal Communication</u> Improve staff awareness of the various codes of conduct and other important issues by updating and developing the Intranet	Completed	No	Director
<u>Anti Fraud & Corruption</u> Update all Anti-Fraud and Corruption policies in conjunction with LCC, ensuring specific ESPO concerns are addressed.	Completed, but ongoing commitment required.	No	Director
<u>Learning and Development</u> Improved access to L&D activities for all stakeholders	Completed, ongoing development required.	No	Director
<u>Succession Planning</u> Workforce Planning for Key posts.	Progress but challenges or risks remain	Yes	Director
<u>Internal Audit Charter & QAIP</u> Develop and gain members approval to both a Charter & QAIP	Charter completed	Yes (QAIP)	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
<u>Business Continuity</u> Up to date Business Continuity plans need to be implemented	Director	December 2015
<u>Succession Plans</u> Succession planning for key posts needs to be implemented.	Director	December 2015
<u>Stakeholders</u> 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	Director	March 2016

needs to be created.		
Internal Audit Function 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 ESPO 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 MANAGEMENT COMMITTEE – 28 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 Management Committee is 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

	<u>YEAR TO DATE</u>				<u>PRIOR YEAR</u>
	<u>ACTUAL</u>		<u>BUDGET</u>		
	£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
	<u>33,113.1</u>		<u>31,657.0</u>		<u>31,099.6</u>

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

	<u>YEAR TO DATE</u>					
	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	
	<u>7,519.2</u>		<u>7,305.2</u>		<u>6,707.0</u>	

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

	<u>YEAR TO DATE</u>					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EMPLOYEES						
Staff	3,290.8		3,553.2		3,276.7	
Agency/Contract	<u>523.5</u>		<u>358.9</u>		<u>473.2</u>	
Total	<u>3,814.3</u>		<u>3,912.0</u>		<u>3,749.9</u>	
OVERHEAD EXPENSES						
Transport	761.6		641.0		731.6	
Warehouse	628.3		629.2		624.0	
Procurement	<u>73.7</u>		<u>120.0</u>		<u>85.9</u>	
	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	<u>18.7</u>		<u>8.5</u>		<u>15.1</u>	
	856.3		806.9		820.1	
Total	<u>2,319.9</u>		<u>2,197.1</u>		<u>2,261.5</u>	
	<u>6,134.2</u>	18.5%	<u>6,109.1</u>	19.3%	<u>6,011.5</u>	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

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

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

<u>YEAR TO DATE</u>						
ACTUAL		BUDGET		PRIOR YEAR		
£000	%	£000	%	£000	%	
<u>1,385.0</u>	4.2%	<u>1,196.1</u>	3.8%	<u>695.5</u>	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 Committee is asked to note the contents of the report and appendices.

Equality and Human Rights Implications

28. None

Risk Assessment

29. None identified

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Appendices

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

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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
Check Balance	5.5%	1.8%	3.1%	3.8%	4.2%
					0

BUDGET

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
Check Balance	7.6%	0.6%	0.8%	-37.4%	3.8%
					0

ACTUAL V BUDGET VARIANCE

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

EASTERN SHIRES PURCHASING ORGANISATION

CONSOLIDATED MANAGEMENT BALANCE SHEET AS AT Jul-15

31st March 2015				
£	£		£	£
	10,774,594			10,774,594
<u>FIXED ASSETS :</u>				
Net tangible Fixed Assets				
<u>CURRENT ASSETS :</u>				
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
<u>CURRENT LIABILITIES :</u>				
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
<u>10,570,235</u>		<u>NET CURRENT ASSETS</u>	<u>11,802,975</u>	
<u>LONG TERM LIABILITIES</u>				
8,000,000		Long Term Borrowings		8,000,000
<u>13,344,829</u>		<u>NET ASSETS</u>	<u>14,577,569</u>	
REPRESENTED BY:				
11,222,789		Usable Reserves		12,455,526
2,122,042		Unusable Reserves		2,122,042
<u>13,344,831</u>		Total Reserves	<u>14,577,568</u>	
				-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	<u>1,238,250</u>
<u>AFINIMOFs</u>	
Allocations to Maintenance and Equipme	53,335
Movement in Fixed Assets	0
Movement in Unusable/Earmarked Rese	(58,846)
Total	<u>1,232,739</u>
Movement in Long Term Borrowings	
Payment of Dividend	
Movement in Long Term Items	<u>0</u>
(Increase)/Decrease in Stock	(891,518)
(Increase)/Decrease in Debtors	(2,678,117)
Increase/(Decrease) in Creditors	730,360
Movement in Working Capital	<u>(2,839,275)</u>
Total	<u>(1,606,536)</u>
Movement in Cash Balances	<u>(1,606,535)</u>

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By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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