



Date: 22/11/2016
My Ref: SB/ESPO
Please ask for: Sara Brennan
Direct Dialling: (0116) 305 7453
e-mail: sara.brennan@leics.gov.uk

To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held on Wednesday, 30 November 2016 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,

Sara Brennan
for Consortium Secretary

AGENDA

| <u>Item</u> | <u>Report by</u> |
|--|------------------|
| 1. Minutes of the meeting held on 27 September 2016. | (Pages 3 - 8) |
| 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.

5. Director's Progress update. (Pages 9 – 14)
Report of the Director
6. Supplementary Information to Inform the Director's Progress Report. (Pages 15 – 26)
Report of the Director
The public are likely to be excluded from the meeting during the consideration of the following items of business in accordance with the provisions of Section 100(A) (4) of the Local Government Act 1972.
(Exempt under paragraphs 3 and 10 of Section 100(A)).
7. MTFFS Monitoring. (Pages 27 - 36)
Report of the Director and Consortium Treasurer
(Exempt under paragraphs 3 and 10 of Section 100(A)).
8. Project Update. (Pages 37 - 66)
Report of the Director
(Exempt under paragraphs 3 and 10 of Section 100(A)).
9. Procurement of Branded Goods. (Pages 67 - 72)
Report of the Director, Consortium Secretary and Consortium Treasurer
(Exempt under paragraphs 3 and 10 of Section 100(A)).
10. International Sourcing. (Pages 73 - 78)
Report of the Director
(Exempt under paragraphs 3 and 10 of Section 100(A)).
11. Modern Slavery Act. (Pages 79 - 86)
Report of the Director
12. Date of Next Meeting.
The next meeting of the Committee is scheduled to take place on 28 February 2017 at 11.00am at County Hall.
13. Any other items which the Chairman has decided to take as urgent.

Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Tuesday, 27 September 2016.

PRESENT

Mr. I. Monson CC (in the Chair)

Cambridgeshire County Council

Mr. T. Orgee CC
Mr. R. Hickford CC

Norfolk County Council

Ms. S. Whitaker CC

Leicestershire County Council

Dr. R. K. A. Feltham CC

Peterborough City Council

Mr. J. Holdich CC

Lincolnshire County Council

Mr. R. Foulkes CC

Warwickshire County Council

Mr. D. Parsons CC

20. Minutes of the meeting held on 21 July 2016.

The minutes of the meeting held on 21 July were taken as read, confirmed, and signed, subject to the following amendment to minute 13 (e):

That minutes 13 (e) now read as 'That the significant workload and additional responsibilities for the senior team at ESPO arising from this and other strategic projects be considered appropriately by the Employing Authority.'

21. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

22. Declarations of interests in respect of items on this agenda.

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

No such declarations were made.

23. Items referred by the Finance and Audit Subcommittee.

There were no items referred by the Finance and Audit Subcommittee. The Committee was advised that the Subcommittee had considered the Governance Statement 2015/16 (minute 25 refers) at its meeting in June.

24. External Audit of the 2015/16 Financial Statements.

The Committee considered a joint report of the Director and Consortium Secretary which reported on the external auditor's key findings from the 2015/16 financial statements and presented a letter of representation from the Consortium Treasurer to the auditors. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

The Chairman welcomed Stephen Hallam and Alison Breadon from PricewaterhouseCoopers (PwC), ESPO's external auditors, to the meeting who communicated the results of their audit.

Arising from discussion, the following principal points were noted:-

- (i). PwC reported a positive audit for 2015/16 and expected that an unqualified audit opinion would be certified. All areas, bar one rated 'amber', covered during the audit had been rated 'green';
- (ii). The external auditors had identified three non-material accounting issues. As a result of an issue around rebate income in the previous year, officers had amended the accounting policy to ensure that there was adequate disclosure of its accounting policy for rebate income. As part of auditing this year, PwC undertook detailed testing to ensure ESPO's rebate income transactions were recognised appropriately based on this policy. As in previous years, some cut-off issues had been identified as part of expenditure sample testing of direct sales, though the impact on ESPO's accounts was unlikely to be material. Members confirmed that they remained satisfied with the appropriateness of accounting for gas accruals, direct sales and rebate revenue on a cash rather than accrual basis;
- (iii). No significant deficiencies in internal control were identified, though a number of matters were brought to the attention of the Committee and addressed in the report;
- (iv). PwC asked the Committee, as those charged with governance, to declare whether there were any known or suspected instances of fraud. No such declarations were made;
- (v). A concern was raised in relation to historic imbalances relating to aged creditors and debtors. The total value of balances older than seven years is £11k on the creditors' ledger and all historic balances on the sales' ledger are provided for in accordance with policy;
- (vi). The report raised an issue in relation to the transaction output report from ESPO's general ledger. It was advised that transaction information was available and obtainable, though there had been issues in terms of the compatibility of technologies used by ESPO and the auditors which prevented access to the full details of ESPO's financial transactions during the reporting period. The issue was resolved by other means and there was no impact on the audit;
- (vii). The completion of the audit would be subject to the approval of the final version of the Statement of Accounts.

RESOLVED:

That the external audit of the financial statements 2015/16 be approved.

25. Statement of Accounts and the Annual Governance Statement for 2015/16.

The Committee considered a joint report of the Director and Consortium Treasurer which reported on the 2015/16 Accounts and Annual Governance statement. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Arising from discussion the following points were raised:

- (i). The annual governance statement had been considered in draft form at the previous meeting of the Management Committee and no significant governance issues had been identified;
- (ii). The value of Grove Park had been re-evaluated and had increased by £0.5m to £11m;
- (iii). The total dividend declared but not yet paid stood at £2.4m, up from £1.5m in 2014/15, and this was reported to be a record distribution.

RESOLVED:

That the Statement of Accounts and Annual Governance Statement for 2014/15 be approved.

26. Director's Progress Update.

The Management Committee gave consideration to a report of the Director which provided an update of the actions and progress made since the previous ESPO Management Committee held on 21 July 2016. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

Arising from discussion the following points were raised:

- (i). The sales total to the end of July was down £3.1m compared to the previous year, and variances were identified from gas sales, store sales, direct sales and rebates. However, it was recognised that sales as part of the School Holiday Offer during August had been strong and it was hoped this would help close the sales gap;
- (ii). ESPO had enjoyed strong performance over the summer period as a result of a number of improvements brought about by the change programme;
- (iii). In the previous quarter two risk reviews were undertaken and reported to the Committee. The next Leadership Team review was scheduled for the 28th September and would be reported to the Committee at its next meeting;
- (iv). It was noted that electronic sales had gone up, and concern was expressed over whether the use of the catalogue would decrease as a result. The Committee was advised that circulation of the catalogue this year matched that of the previous year and there were no indicators to suggest that use of the catalogue this year was down as a result of electronic sales.

RESOLVED:

That the Director's Progress Update be noted.

27. Dates of future meetings.

It was noted that the next meeting of the Committee would be held on Wednesday 30 November at 11.00am at ESPO, Grove Park.

28. 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 items of business entitled 'Supplementary Information informing the Director's Progress update', 'MTFS Monitoring for the first 5 Months of 2016/17', 'Herts FullStop Merger Project Update' and 'Creation of a Legal Trading Company' 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.'

29. Supplementary Information Informing the Director's Progress Update Report.

The Management Committee received an exempt report from the Director which set out further supplementary information regarding the Director's Progress Update. A copy of the exempt report, marked 'Agenda Item 10', 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:

- a) That the supplementary information informing the Director's Progress Update be noted;
- b) That a report around international sourcing be presented to the Management Committee at its next meeting.

30. MTFS Monitoring for the first 5 Months of 2016/17

The Committee considered an exempt joint report of the Director and Consortium Treasurer monitoring the Medium Term Financial Strategy against the first five months of trading in the 2016/17 financial year. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

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

RESOLVED:

That the contents of the report be noted.

31. Project Update.

The Committee considered an exempt report of the Director on the progress of the strategic project at ESPO. A copy of the report marked 'Agenda Item 12' 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:

- a) That the timeline for completion of due diligence has been deferred and its reporting will be at the 30 November meeting be noted;
- b) That the Committee note the delay in completing due diligence and the production of a business plan, which following agreement between Chief Officers is to be circulated electronically to members between committee cycles.

32. Creation of Legal Trading Company.

The Committee considered an exempt joint report of the Director and the Consortium Treasurer around the progress towards the creation of an ESPO legal trading company. A copy of the exempt report marked 'Agenda Item 13' 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:

- a) That the contents of the report are noted;
- b) That the Committee support the proposals and approach outlined in the report and set out as below:
 - (i). That a company limited by shared is created;
 - (ii). Which is held on behalf of ESPO Members by Leicestershire County Council for funding purposes, and for administrative and governance convenience;
 - (iii). That both profits/surpluses and also liabilities are shared among the members which would be set out in a separate legal agreement between members.

11.00am – 12.38pm
27 September 2016

CHAIRMAN

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MANAGEMENT COMMITTEE – 30 NOVEMBER 2016**PROGRESS UPDATE****REPORT OF THE DIRECTOR****Purpose of Briefing Note**

1. The purpose of this update is to inform Members of the actions and progress made since the last Management Committee meeting held on 27 September 2016.

Overall Financial Performance

1. Overall financial performance to October 2016 year to date is outlined below:
 - Total sales to the end of October are £49.2m compared to the prior year £52.7m. The variances come from gas sales (£2.6m) and rebates (£0.2m).
 - The reason for the fall in gas sales compared to the prior year is mild weather and reduced wholesale prices. Below is a comparison of kWh invoiced:

April – October 2015: 347,737,916 kWh invoiced
April – October 2016: 281,158,721 kWh invoiced (-19%)
 - Additionally, the contract price of gas was reduced by, on average, 20% with effect from 1 April.
 - There were some 'losses' of customers at the end of the last contract (March). Although not the primary reason for the fall in gas sales, it will be a factor.
 - Three significant new customers were added to the portfolio last month - Coventry, Derby and Calico Housing. The income for these will start to flow through this month (all gas and electricity income is now settled monthly with the supplier, Total Gas & Power)
 - Total gross margin is £12.5m which is down on budget by £0.1m and £0.2m up on the prior year. This is due to a better margin on stores sales as a result of lower discounting and higher margins on exercise books as a result of international sourcing.
 - Rebate income is £2.7m which is £0.1m down on budget and £0.2m down on the prior year due to continuing pressures arising from contract usage as opposed to supplier payment.

- Total expenditure is £10.3m compared to a budget of £10.5m. This is a saving of £0.2m or 1.9%.
- Consequently, surplus is £2.2m compared to a budget of £2.1m, a positive variance of £0.1m. We are cautiously optimistic about achieving the £3.9m budget surplus, although there remains five months trading in a challenging market.

2. Key figures underlying the total sales to 30 October 2016 are as follows:

| | YEAR TO DATE | | | | | |
|-----------------------|-----------------|---|-----------------|---|-----------------|---|
| | ACTUAL | | BUDGET | | PRIOR YEAR | |
| | £000 | % | £000 | % | £000 | % |
| SALES | | | | | | |
| STORES | 27,269.7 | | 27,413.9 | | 27,338.8 | |
| DIRECT | 11,376.2 | | 11,987.8 | | 11,987.3 | |
| GAS | 7,043.6 | | 11,412.8 | | 9,639.2 | |
| CATALOGUE ADVERTISING | 798.5 | | 871.3 | | 798.9 | |
| REBATE INCOME | 2,671.6 | | 2,812.0 | | 2,870.0 | |
| MISCELLANEOUS INCOME | 58.1 | | 99.2 | | 34.4 | |
| TOTAL SALES | 49,217.7 | | 54,597.0 | | 52,668.6 | |

3. The balanced scorecard for October is attached as Appendix 1.

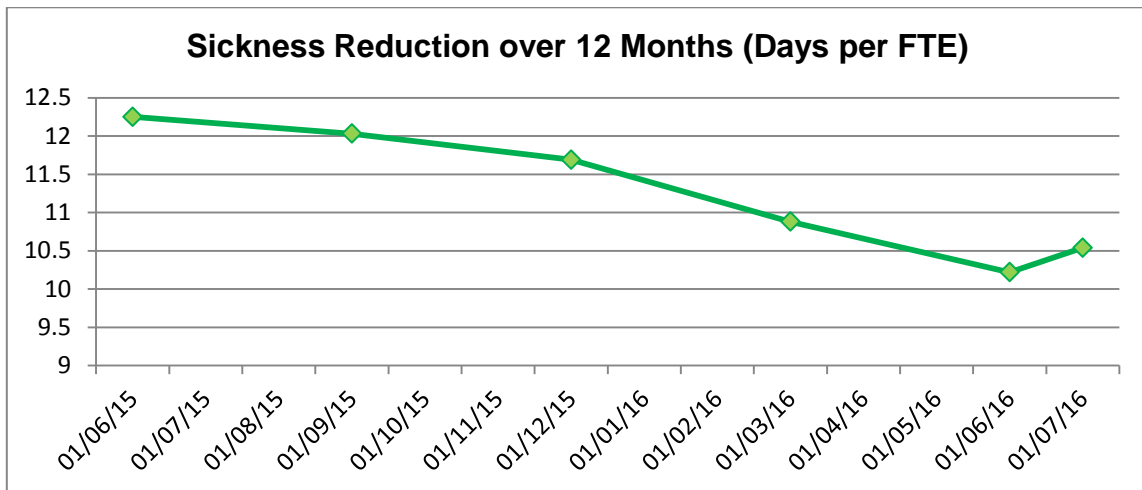
ESPO Operational Progress

Operations

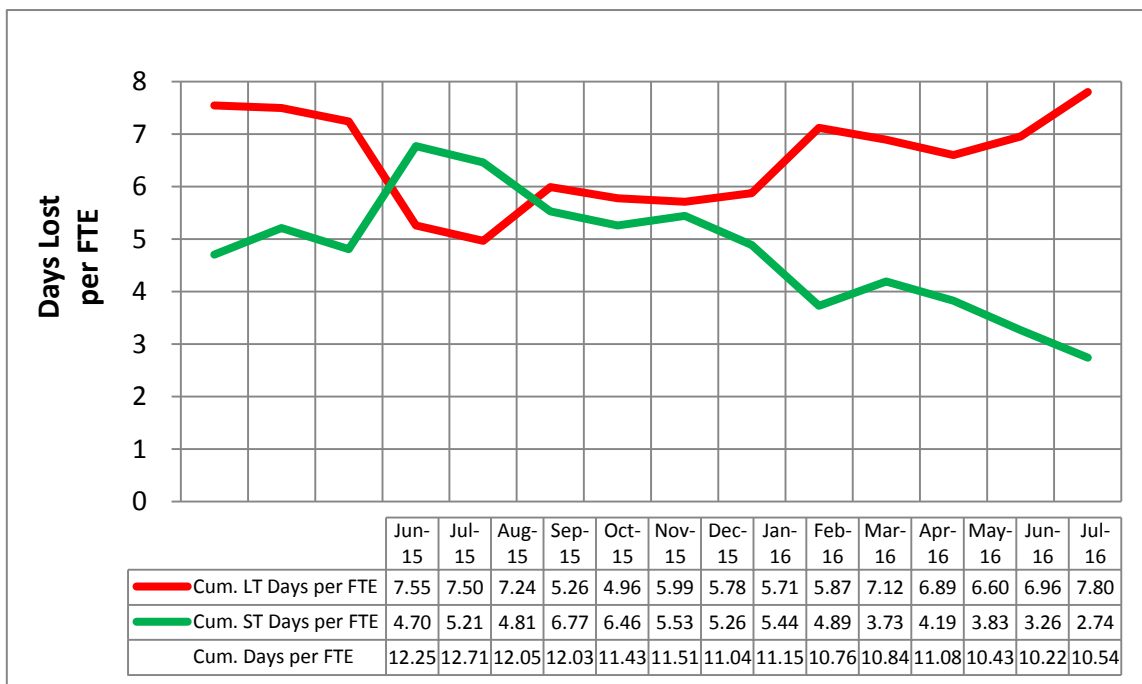
4. This year so far ESPO has enjoyed a strong peak period which has been carried forward into an underlying level of operational performance.
5. In the first six months of 2016/17, Operations successfully managed the processing and delivery of £27.2m of customer orders making 277,526 on-time deliveries weighing 9.5m kg. This critical 'peak' trading period is the acid test of operational robustness and ESPO have performed well.
6. The School Holiday Offer was particularly well received this year with £2.5m of orders processed and delivered to schools during August.
7. A tender is being prepared for the replacement of the eight existing warehouse reach trucks. This is expected to conclude by March 2017.

Staffing

- Over the rolling twelve-month period to 31 July 2016, the total number of days lost to sickness absence was 10.54 per FTE. This is as an overall organisation. While this has shown a slight increase compared to the previous month, there has continued to be a significant reduction over the twelve-month period. All sickness absences at ESPO continues to be managed in line with the Attendance Management policy and procedure.



Overall declining trend due to long-term absence being managed



Long Term and Short Term Sickness Levels

- While the last 12 months has seen a continuous drop in Short Term sickness, from 178 FTE days (6.46 days per FTE) for October 2015 to 105 FTE days (2.74 days per FTE) in September 2016, there has unfortunately been a steady rise in Long Term sickness, from 136 FTE days (4.96 days per FTE) in October 2015 to 212 FTE days (7.80 days per FTE) in September 2016.

10. As part of the current service level agreement for ESPO, the HR Business Partner has arranged for ESPO to have its own recruitment portal with East Midlands Shared Services. This will allow ESPO to have its own web pages to advertise vacancies. The team is currently working on developing these web pages to be fully implemented in December 2016.
11. The ESPO Leadership Team has agreed the programme of mandatory and optional training to be covered at ESPO. A work plan will be developed to ensure that all ESPO staff have completed these modules in order to close the 'training gap'. Bespoke training for job roles will also be developed over the coming months.
12. Mental Health First Aid training took place and was very well received. ESPO is hoping to run another session soon. In order to increase the number of qualified first aiders at ESPO, three Emergency First Aid training courses were also conducted in the last quarter. Fire marshal training for over thirty staff will take place in November; this takes place every three years.

ESPO Risk and Governance Update

Health & Safety

13. There have been no RIDDOR reportable incidents in the second quarter and all accidents have been relatively minor. Focussing on health and safety inductions with our more vulnerable agency staff has ensured that these numbers continued to be low during our busiest period.
14. In the second quarter, there were a total of six reported accidents. Injuries included strain/sprains (2), bruise/bumps (1), superficial injury (1) and slips/trips/falls (2).
15. There was one incident of property damage on a counterbalance truck which was subsequently fixed. There was one near miss with a fork lift reversing and damaging a beam which was replaced as a matter of course.
16. Improvements carried out in the quarter which impact health & safety in Operations include:
 - Repairs and relining of the sprinkler system tank
 - Service yard safety marking

Corporate Risk Register

17. In September, ESPO's Leadership Team held its quarterly review of Major Risk Records (MRRs).
18. The following new risk was identified for which an MRR will be written up in the coming quarter:

- MRR65 Modern Slavery (as reflected in the Modern Slavery Act)

19. There are eight high risks which will be reviewed monthly:

- MRR 8 Potential governance failures by management
- MRR 25 Increased competition
- MRR 34 Robust business continuity in the event of an emergency
- MRR 38 Potential failure of the Optima implementation
- MRR 46 Loss of income through not recovering all we are entitled to through supplier rebates, including on collaboration supply arrangements
- MRR 60 Non-delivery of Business Development Agenda to MTFS
- MRR 63 Implications of exiting the European Union
- MRR 64 Energy Contracts financial risk exposure regarding variations

Resources Implications

20. None arising directly from this report.

Recommendation

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

Officer to Contact

John Doherty, Director
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0116 265 7931

Appendices

Appendix 1: Balanced Scorecard

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Management Summary & Key Projects Oct 16

Management Summary

| | Actual | Budget /LY | Var | YTD Actual | YTD Var |
|---|------------|------------|-------------|-------------|----------|
| Stores Sales | £2,428,298 | £2,602,770 | ↓ -6.7% | £27,269,718 | ↓ -0.5% |
| Direct Sales | £1,511,086 | £1,696,912 | ↓ -11.0% | £11,376,159 | ↓ -5.1% |
| Rebate plus fee income | £752,700 | £852,000 | ↓ -11.7% | £2,671,558 | ↓ -5.0% |
| Total Sales (inc Gas & Rebates) | £5,320,119 | £6,411,943 | ↓ -17.0% | £49,217,700 | ↓ -9.9% |
| Stores Margin % | 29.29% | 26.77% | ↑ 2.53pp | 27.12% | ↑ 1.26pp |
| Directs Margin % | 13.12% | 12.78% | ↑ 0.35pp | 13.14% | ↑ 0.36pp |
| Total Gross Margin inc Consumables Cost | £1,662,300 | £1,819,316 | ↓ -8.6% | £12,529,276 | ↓ -0.4% |
| Total Expenditure | £1,431,177 | £1,378,255 | ↓ -3.8% | £10,275,218 | ↑ 1.6% |
| Surplus | £231,123 | £441,061 | ↓ -£209,938 | £2,254,057 | ↑ 5.3% |
| Net Profit Margin % | 4.34% | 6.88% | ↓ -2.53pp | 4.58% | ↑ 0.66pp |
| Operations cost as a proportion of sales | 31.1% | 27.4% | ↓ -3.71pp | 19.1% | ↑ 0.55pp |
| Expenditure as a proportion of Gross Margin | 86.1% | 75.8% | ↓ -10.34pp | 82.0% | ↑ 0.97pp |

Full year up to Sep 16 data....

| | No. FTE at Sep 16 month end... | Cum No. days lost | No. of Days Lost per FTE TY Cum |
|---------------|--------------------------------|-------------------|---------------------------------|
| Sickness Rate | 320 | 3,558 | 11 |

Key Projects

ERP Upgrade

- Core team testing has continued on the Aurora system. Testing has been identified as complete in the majority of business areas now.
- Core team members have been asked to support a Conference Room Pilot exercise scheduled for 24th/25th October. This will validate end-to-end application processes.
- Risks**
- Output from CRP identifies issues not previously experienced. These may not be resolvable in time available pre Go Live
- Continued issues in the area of electronic trading that cannot be addressed prior to plan Go Live date.

↓
Scale to show are we on track?

MOV

| | TY YTD | LY YTD | Var |
|-------------------------|---------|---------|-----------|
| AOV | £148.18 | £132.56 | ↑ £15.61 |
| Prop of orders over £15 | 96.1% | 83.1% | ↑ 13.06pp |

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MANAGEMENT COMMITTEE – 30 NOVEMBER 2016

MODERN SLAVERY ACT 2015

REPORT OF THE DIRECTOR AND DEPUTY DIRECTOR

Introduction

1. Modern slavery exists today in a number of industries around the world. The International Labour Organisation (ILO) estimates that there are 21m workers trapped in modern slavery around the globe. An estimated 13,000 of the total are in the UK. Slave labour can be notoriously difficult to stamp out; supply chains are long and complex and often companies do not have enough visibility of or influence to address the problem.
2. The March 2015 UK Modern Slavery Act Transparency in Supply Chains provisions placed legal obligations on all in-scope organisations, with a turnover above £36m and with UK operations, to publish an annual statement disclosing the steps it is taking to try and ensure there is no slavery or human trafficking in its business and supply chains.
3. Those organisations with large global supply chains are particularly at risk as they can often lose sight of the conditions under which goods are produced. Sectors which have large numbers of low paid unskilled workers will be most vulnerable to slavery and trafficking issues.
4. According to David Noble, Chief Executive of the Chartered Institute of Procurement & Supply (CIPS), 11% of British business leaders say it is likely that modern slavery already plays a role in their supply chains.

Legislation

5. The Modern Slavery Act received Royal Assent on 26 March 2015. The Act consolidates slavery and trafficking offences, and introduces tougher penalties and sentencing rules.
6. The Act ensures that law enforcement agencies have the powers they need to pursue, disrupt and bring to justice those engaged in human trafficking and slavery, servitude and forced or compulsory labour. The Act includes provisions, amongst other powers, to require businesses over a certain size and threshold to disclose each year what action they have taken to ensure there is no modern slavery in their business or supply chain.

Transparency in Supply Chains (Section 54)

Section 54 (Part 6) was added retrospectively to the Act and states that all in-scope organisations over the turnover threshold must publish an annual slavery and human trafficking statement disclosing the steps the organisation has taken during the financial year to try and ensure that slavery and human trafficking is not taking place in any of its supply chains, and in any part of its own business; or prepare a statement that the organisation has taken no such steps.

7. The statement is a summary of steps taken during the financial year to try and ensure that slavery and human trafficking is not taking place in any part of its business or its supply chains. A statement needs to be published regardless of whether any steps have been taken or not.
8. There is no specific template for reporting but the Act suggests the following for inclusion in the statement:
 - The organisation's structure, its business and supply chains;
 - Its policies in relation to slavery and human trafficking;
 - Its due diligence process in relation to slavery and human trafficking in its business and supply chains;
 - The parts of its business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk;
 - Its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators as it considers appropriate;
 - The training about slavery and human trafficking that is available to its staff.
9. The section specifies who in the organisation must sign off the slavery and human trafficking statement. This part of the Act explicitly defines the organisations that are within the scope of the Act (and therefore by implication any not included in the following definitions are not covered). If the organisation is a:
 - Corporate body other than a limited liability partnership, the statement must be approved by the board of directors (or equivalent management body) and signed by a director (or equivalent);
 - Limited liability partnership, the statement must be approved by the members and signed by a designated member;

- Limited partnership registered under the Limited Partnerships Act 1907, the statement must be signed by a general partner;
 - Any other kind of partnership, the statement must be signed by a partner.
10. The Act also sets out where an organisation should publish its statement and guidance:
- If the organisation has a website, it must publish the slavery and human trafficking statement on that website and include a link to the statement in a prominent place on that website's homepage;
 - If the organisation does not have a website, it must provide a copy of the statement to anyone making a written request for one, and must do so before the end of the period of 30 days beginning with the day on which the request is received.

Procurement Role

11. Evidence suggests that the risk of modern slavery affects almost every industry; electronics and high tech, steel and automobiles, agriculture and seafood, mining and minerals, garments and textiles, and shipping and transportation. ESPO has some high-profile frameworks in category areas in which slavery and human trafficking are particularly prevalent: temporary labour and food supply, and it also relies on temporary labour in its warehouse operation.
12. The evidence also suggests that, while modern slavery is illegal in every country in the world, it still occurs in every country. There have been recent examples of these practices in the UK (see Appendix 1).
13. Procurement has an important part to play in sourcing in a manner that enables and rewards suppliers for good employment practices, rather than in a manner which drives the use of modern slavery practices. Procurement should be part of a wider risk management strategy addressing ethical and sustainable procurement practices.

HR/Operations Role

14. HR and Operations should take steps to ensure recruitment of staff, particularly through agencies, and in our contracted and outsourced activities are subject to similar risk assessment and scrutiny. Where procurement of such services is undertaken through ESPO frameworks, it is anticipated the risk will be reduced.

Conclusion and Recommendation

15. ESPO, as a Local Authority Joint Committee, does not meet the definitions of organisations covered by the Act and, therefore, is not required to publish a statement. However, as a professional, responsible and ethical public procurement organisation, ESPO should take steps to address risk including slavery and human trafficking in its supply chains, through contracts for goods and services destined for framework, catalogue and other customers, and through its own contracted supply chains, in particular for agency staff.
16. This not only represents good practice, but is likely to be something that like-minded customers will require, and to fail to do so would give rise to increased supply chain and reputational risk.
17. The ESPO Leadership Team and COG have proposed that ESPO will voluntarily adopt the provisions of the Act, review and enhance supply chain management, and publish a suitable Modern Slavery and Human Trafficking statement and policy.

Next Steps

18. The next steps we will be taking at ESPO include:
 - Review of ITT templates for frameworks and for catalogue to consider the inclusion of a method statement question for suppliers on their approach to Modern Slavery and Human Trafficking in their business operations and in their supply chains (note however that not all suppliers will be subject to the legislation);
 - Amend the Risk Assessment Tool to accommodate supply chain ethical risk including slavery and human trafficking, to reflect risk by category and country;
 - Contract clauses to be drafted and implemented to cover slavery and human trafficking in the supply chain covering (for example):
 - Sub-contracting;
 - Due diligence and supplier warranties backing off potential risks;
 - Immediate notification of any actual or suspected breaches of the organisation's policies and any actual or suspected slavery or human trafficking which has a connection to the agreement;
 - Audits and training;
 - Compliance with all laws and policies and, specifically, the Modern Slavery Act;
 - Early termination if a suspected or actual breach is discovered or reported;
 - Draft initial ESPO Modern Slavery and Human Trafficking statement for 2016-17;
 - Writing a section in the Annual Governance Statement on Modern Slavery and

Human Trafficking;

- Major Risk Record to be added to the ESPO Corporate Risk Register;
- ESPO's Modern Slavery and Human Trafficking Policy and annual statement to be approved at Leadership Team and signed off by the Director or Deputy Director.

Resources Implications

19. None arising directly from this report.

Recommendation

20. It is recommended that the Committee:

- a) Confirm agreement with ESPO's voluntary compliance with the Modern Slavery Act 2015;
- b) Note the contents of the report.

Officers to Contact

John Doherty, Director
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0116 265 7931

Kristian Smith, Deputy Director
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Appendices

Appendix 1: Lawrence F. (2016) 'Lithuanian Gangmasters jailed in modern slavery and trafficking case', *The Guardian*, 22 January

Lithuanian gangmasters jailed in modern slavery and trafficking case

Judge says two fellow countrymen, one of whom has learning difficulties, treated with 'grossly degrading and cruel behaviour'

Felicity Lawrence

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Two Lithuanian men have been found guilty of trafficking two of their fellow countrymen, taking all but £20 of the wages they received over several months for working in food factories that supply many leading supermarkets.

The victims, Edvinas and Edgarus Subatkis, were found still wearing the same clothes in which they had made their journey to Britain. They had also lost weight dramatically since leaving Lithuania - about 15kg (2st 4lbs) in the case of Edvinas.

Fellow Lithuanians Linus Ratautas and Konstantin Sasmurin introduced the twins to recruitment firms, where Ratautas helped them fill in registration forms with his own bank details.

Payment for the work the Subatkis brothers undertook was deposited directly into Ratautas's bank account. The twins were given just £20 over the four-month period they worked and a small amount of food each week: bread, margarine, onions, ketchup, and occasionally a little mince.

They were found working in a chicken factory owned by the largest poultry processor in the UK, the 2 Sisters Food Group, whose factory in Flixton, Suffolk, supplies meat to many leading British supermarkets, including Sainsbury's, Tesco, Asda and M&S.

The twins said their convicted gangmasters had repeatedly threatened them with violence. If they were to tell anyone about their conditions or try to get out of their "agreement", Edvinas and Edgarus were warned they would have their bones broken, be "dug under" or "fed to the crabs", which the brothers understood to mean that they would be killed. They were hungry, frightened and very reluctant to speak.

After several weeks, however, the Flixton factory's human resources manager was alerted to a problem and interviewed the brothers. The manager, in turn, reported his concerns immediately to the Gangmaster Licensing Authority (GLA).

In a ruling at King's Lynn crown court earlier this month, Ratautas and Sasmurin were each sentenced to three and a half years in prison for trafficking and money laundering. They were also given the first ever slavery and trafficking prevention orders (STPOs) relating to labour exploitation in the UK.

Sentencing the pair, the recorder Mark Dennis highlighted the harm done by their “grossly degrading and cruel behaviour”.

“Once lured here and met by you, [the brothers] were in reality controlled by you physically and financially. You pocketed their earnings ... for your own financial gain and greed, picking on vulnerable persons who were not in a position to resist or extricate themselves from your grasp,” he said.

“I start on the basis for forced labour but there are obvious elements of slavery and servitude which cannot be ignored.”

The Subatkis twins were used as forced labour and their experience is typical of a growing pattern of exploitation in the UK made possible by a supply chain that relies of layers of sub-contracting in which traffickers can thrive. The pair were employed at the 2 Sisters factory via the Staffline recruitment agency, as signed up by Ratautas.

They were vulnerable young men, brought up partly in care in Lithuania. Edvinas has learning disabilities and Edgarus is of limited education.

Both had been in trouble with the Lithuanian authorities in the past, so when offered work in the UK in 2013, the two men, then 26, saw the chance of a fresh start.

They were lured from Lithuania on the promise of good jobs, housing and all their essentials being provided. They agreed to pay an £800 fee for transport and employment, even though it is illegal to charge workers for finding work in the UK.

They were taken to 3 Crittens Road, in Great Yarmouth, a damp, mouldy and barely furnished three-storey house occupied by several other Lithuanians, where they shared a single mattress in a room with two other men. When they asked for the things they had been promised, they were told they had to pay off their £800 debt first.

At first they were put to work at Norbert Dentressangle’s pea processing plant in Lowestoft, where they were signed up by the Jark recruitment firm on site. The plant supplies a frozen food giant whose products are sold as own-label frozen peas in many high street retailers.

Their gangmasters later moved them to 2 Sisters in Flixton.

Enforcement agencies say this was not an isolated incident. The conviction of Ratautas and Samuris came as the government admitted in a recent consultation paper that “serious and organised crime gangs are infiltrating legitimate labour supply chains in several sectors” in the UK.

This week the government introduced last-minute amendments to the immigration bill in the House of Lords committee stage to increase the powers, remit and parliamentary oversight of the GLA to tackle labour exploitation. The STPOs prohibit the convicted men from acting as gangmasters again.

According to court papers, the two Jark and Staffline employees who registered the twins under the eye of the gangmasters have resigned. All the companies involved in

The Subatkis case say they have strong anti-slavery policies in place and 2 Sisters acted quickly once the case was brought to their attention.

The agencies and both the pea and chicken factories said they had rigorous procedures in place to guard against trafficking and exploitation and that these had been updated since the Subatkis case.

A spokesman for 2 Sisters told the Guardian: "Once we were aware of the situation, we acted swiftly and decisively. The UK food industry depends on migrant labour, and our processes and systems lead the sector.

"Unfortunately, even the best systems can occasionally be breached. We work closely with the GLA and are the biggest supplier partner in the Stronger Together anti-slavery initiative."

XPO Logistics, which owns the Norbert Dentressangle pea factory, said it took its responsibilities to its employees "extremely seriously". Mark Simmons, the company's HR director, told the Guardian: "Our pea processing facility at Oulton Broad employs around 150 people in peak season, around half of which are agency staff provided by Jark.

"Jark has been licensed with the Gangmasters Licensing Authority on a continuous basis since July 2008. Our service level agreement with Jark covers all relevant legislation and our internal training procedures."

The supermarkets told the Guardian they did not tolerate slavery or trafficking and said they had imposed audits and codes of practice on suppliers, and joined an industry-wide initiative to prevent it. Sainsbury's, Tesco, Asda and M&S said that organised crime could occasionally penetrate these systems despite their best efforts, a position echoed by the GLA.

The GLA's chief executive, Paul Broadbent, said: "No matter how robust and secure company systems and structures are, organised criminality can and will infiltrate the legitimate supply chains in their endeavours to exploit workers.

"I am satisfied that in this case, all that could have been done to keep criminals out of the supply chain was done. The companies involved worked with us closely and swiftly to resolve this serious issue."

The Subatkis twins meanwhile are adrift. They have been provided with emergency housing and are supported by charities in the UK through the national referral mechanism for victims of trafficking. They have no family to turn to and no work in the UK, but feel unable to go back to Lithuania for fear of reprisals from associates of Ratautas and Sasmurin.

This article was amended on 25 January 2016 to clarify details of the slavery and trafficking prevention orders given to Ratautas and Sasmurin.