



Date: 13th June 2017
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, 21 June 2017 at 11.00 am in the Guthlaxton Committee Room, County Hall, Glenfield.

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

Yours faithfully,

Sara Brennan
for Consortium Secretary

AGENDA

Item

Report by

1. Election of Chairman for 2017/18
(Leicestershire County Council to nominate)
2. Election of Vice-Chairman for 2017/18
(Peterborough City Council to nominate)
3. Minutes of the meeting held on 28th February 2017
4. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.

(Pages 5 - 10)

5. Declarations of interests in respect of items on this agenda.
6. Draft Outturn 2016-17 (Pages 11 - 22)
Joint Report of the Director and Consortium Treasurer.
7. Director's Progress Update (Pages 23 - 38)
8. Code Of Corporate Governance (Pages 39 - 58)
Report of the Director.

(Immediately following the discussion on this item, the Chairman will be asked to consider Item 13 on the Agenda but to do so in closed session as it involves the disclosure of exempt information)

9. Internal Audit Service - Annual Report 2016-17 (Pages 59 - 80)
Report of the Consortium Treasurer.
10. Internal Audit Service Plan for 2017-18 (Pages 81 - 88)
Report of the Consortium Treasurer.
11. Date of Next Meeting
The next meeting of the Committee is scheduled to take place on 20th September 2017 at 11am at ESPO.

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.

12. Director's Progress Report - Supplementary Information (Pages 89 - 100)
Report of the Director.
(Exempt – Paragraph 3 and 10 of Schedule 12A).
13. Corporate Risk Register - Analysis of Risks Outside Tolerance (Pages 101 - 126)
Report of the Director.
(Exempt – Paragraph 3 and 10 of Schedule 12A).
14. Managing Change and Business Development (Pages 127 - 132)
Report of the Director.
(Exempt – Paragraph 3 and 10 of Schedule 12A).

15. Warehouse Mechanisation

(Pages 133 -
182)

Report of the Director.

(Exempt – Paragraph 3 and 10 of Schedule 12A).

This page is intentionally left blank



Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Tuesday, 28 February 2017.

PRESENT

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

Cambridgeshire County Council

Mr. I. Bates CC
Mr. R. Hickford CC

Norfolk County Council

Ms. S. Whitaker CC

Leicestershire County Council

Dr. R. K. A. Feltham CC
Mr. G. Hart 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

46. Apologies

Apologies were received from Mrs. S. Rawlins CC (Lincolnshire) and Mr. D. Seaton (Peterborough).

47. Minutes of the meeting held on 30th November 2016

The minutes of the meeting held on 30th November 2016 were taken as read, confirmed, and signed subject to the following:-

- a) Mr Holdich apologies for absence being recorded;
- b) Minute 39 being amended to include reference to the need to manage currency fluctuation resulting from the vote to leave the European Union.

48. 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.

49. 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 declarations were made.

50. Items referred by the Finance and Audit Subcommittee

There were no items referred by the Finance and Audit Subcommittee. Members were advised that the Subcommittee had considered items 6 and 13 (minutes 52 and 59 refer) on the agenda.

51. External Audit Plan

The Committee received a report of the External Auditors, PricewaterhouseCoopers (PwC) on the External Audit Plan 2016/17. A copy of the Plan, marked 'Agenda Item 5', is filed with these minutes.

The Committee was advised that there were two major accounting changes to be introduced next year listed on page 23 of the report which would have an impact on ESPO. These were IFRS 15 – Revenue from contracts with customers and IAS 16 which concerned the depreciation method to be applied in relation to plant, property and equipment. Both changes will have resource implications for ESPO.

RESOLVED:

- a) That the External Audit Plan 2016/17 be noted;
- b) That the level of materiality for reporting to the Management Committee be set at £88,000.

52. Internal Audit Charter for ESPO

The Committee received a report of the Consortium Treasurer concerning a revised Internal Audit Charter for ESPO. A copy of the report, marked Agenda Item 6, is filed with these minutes.

Members were advised that the Finance and Audit Subcommittee at its meeting on 7th February supported the adoption of the revised Charter.

Members whilst welcoming the Charter thought it would benefit from having a glossary of the acronyms used.

RESOLVED:

That the revised Internal Audit Charter for ESPO be approved.

53. Proposed Changes to the Contract Procedure Rates.

The Committee considered a report of the Director concerning the operation of the Contract Procedure rules between 1st July 2015 and 30th June 2016 and proposed amendments to these rules. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

RESOLVED

- a) That the operation of the Contract Procedure rules during the period 1st July 2015 and 30th June 2016 as outlined in the report be noted;
- b) That the revisions to the Contract Procedure rules as set out in Appendix B to the report be approved.

54. Annual review of Organisational Approach to Risk Management

The Committee received a report of the Director outlining the annual review of the organisational approach to Risk Management, and to present the revised Risk Management Statement as a result of this review. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

In response to questions from members the Director advised as follows:-

- i) The proposed trading company would have its own specific governance arrangements agreed by the members/shareholders which would include a risk management policy;
- ii) The EU exit was rated at 15 given the changed economic and trading conditions that were likely to result and which would impact on the profitability of ESPO. Whilst efforts will be made to mitigate given the uncertainties this would remain as a high risk on the register;
- iii) In relation to the high risks listed at Page 155, future reports would include an explanation of the mitigating actions which had resulted in a reduction in the risk rating;
- iv) The new accounting requirements referred to in the External Audit report would need to be reflected in the risk register going forward.

RESOLVED:

That the revised Risk Management Statement be approved.

55. Director's Progress Update.

The Management Committee received a report of the Director which provided an update of the actions and progress made since the previous ESPO Management Committee held on 30th November 2016. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

The Management Committee was advised that:-

- i) the market premiums would be reviewed after a period of two years;
- ii) the gas sales were shown separately from catalogue sales. Income derived from gas is based on the number of meters rather than the volume of gas sales.
- iii) the miscellaneous income was derived from the introduction of minimum order level and sale of assets no longer needed.

RESOLVED:

- a) That the contents of the Director's Progress Update be noted;
- b) That the Committee's appreciation be conveyed to the officers involved in the successful roll-out of the Enterprise Resource Planning (ERP) Project.

56. Date of Next Meeting.

It was noted that the next meeting of the Committee would be held on 21 June 2017 at 11.00am at County Hall, Glenfield.

Recognising that a number of members would not be seeking re-election in May 2017 and the likelihood of several new members being appointed by Constituent Authorities the Management Committee agreed the following meeting arrangements for the period May – September

- i) The Finance and Audit Subcommittee meeting scheduled for 24th May be cancelled;
- ii) The Management Committee on 21st June to deal with the sign off of the accounts and any urgent matters
- iii) The Management Committee on 20th September to be held at ESPO should include a presentation on ESPO and its business model and strategy, a tour of the warehouse followed by a formal meeting.

57. Supplementary Information informing the Director's Progress Update.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 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;-

- i) Supplementary Information to the Director's Progress Report;
- ii) Forecast Outturn 2016/17 and draft MTFS 2017-21'

58. Supplementary Information to the Director's Progress Update.

The Committee received an exempt report of the Director which set out supplementary information to his Progress Update (minute ?? refers). A copy of the exempt report, marked 'Agenda Item 12', is filed with these minutes.

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

The Director advised members of the basis on which it was proposed to set up the new trading arm and indicated that it was unlikely that it would be directly involved in the process of procurement of supplies. As such the issues concerning the public procurement rules remained valid.

RESOLVED:

That the supplementary information informing the Director's Progress Update be noted.

59. Forecast Outturn 2015/16 and Draft MTFS.

The Committee received an exempt report of the Director which set out the Forecast Outturn 2016/17 and Draft MTFS. 2017-21. A copy of the exempt report, marked 'Agenda Item 13', is filed with these minutes.

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

Members acknowledged the difficult market and cost pressures facing ESPO and were content with the revised surplus forecasts recognising the need to set realistic and sustainable growth targets.

RESOLVED:

- a) That the forecast outturn for 2016/17 be approved:
- b) That draft budgets for, 2017/18 to 2020/21 be approved.

60. Chairman - Mr. I. Monson and retiring members

Members were advised that this would be last ESPO meeting for Mr Monson as he was not seeking re-election in May.

Members of the Committee and officers paid tribute to the leadership provide by Mr Monson and thanked him for his service.

Tributes were also paid to other members of the Committee who had indicated they too would not be seeking re-election.

11.00am -12.55pm
28th February 2017

CHAIRMAN

This page is intentionally left blank



ESPO Management Committee – 21st June 2017

DRAFT OUT-TURN 2016-17

**REPORT OF THE DIRECTOR AND
CONSORTIUM TREASURER**

Purpose of Report

1. This report sets out the draft outturn for 2016/17 with explanations for the more significant variances to prior year and budget. The trading environment that ESPO operates in continues to present significant challenges. Independent industry data from BESA suggests a contracting market that is likely to continue for the foreseeable future. Members should note that the outturn will be subject to external audit.

Background

2. The Management Committee are updated at each meeting on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy. There was no Finance and Audit Sub Committee in June 2017 due to the proximity to the Local Elections.

Financial Performance for 2016-17 compared to the MTFs and Prior Year

Sales

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	41,847.0		42,814.0		41,673.7	
DIRECT	18,213.7		20,198.5		19,274.3	
CATALOGUE ADVERTISING	875.6		955.0		904.2	
REBATE INCOME	6,049.7		6,108.0		6,108.2	
MISCELLANEOUS INCOME	284.3		170.0		124.3	
Total Sales Excluding Gas	67,270.2		70,245.5		68,084.6	

3. Total sales excluding gas are £67.3m compared to a budget of £70.3m and prior year £68.1m.
4. Store sales are £967k behind budget and £174k favourable to last year. The key area of decline has been in our non-education store sales, our education business is holding up

very well when compared to the BESA data. The positive variance to last year is explained by Easter falling in April 2017 which meant there was no school closure for Easter in 2016-17 which enhanced our sales. In 2017-18 there are two Easter closures during the financial year.

5. Direct sales are £1,985k behind budget. Once again the principal decline is in non-education, but also in the later part of the year the tightening in education budgets saw a decline in education direct sales.
6. Gas sales have performed as follows:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
GAS	14,375.0		25,359.6		20,469.6	

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

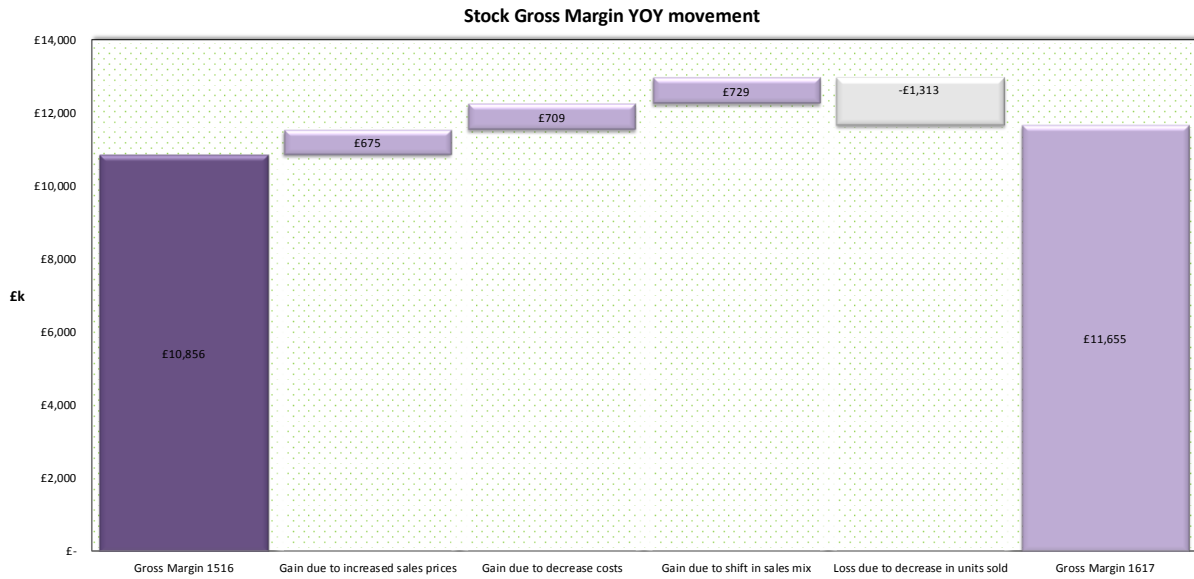
- April – Dec '15: 494,936,385 kWh invoiced
- April – Dec '16: 420,148,741 kWh invoiced (-15%)

7. Additionally, the contract price of gas was reduced by, on average, 20% with effect from 1st April. The decrease in volume and gas prices does not however impact our margin which is a fixed price and based on number of meters which are 3,548 at December 16. Year on year there has been a net decrease of 4% principally down to Nottingham creating their own energy company. The impact on income has been offset by increasing per meter charges.
8. Rebates are £59k behind budget and £59k behind the prior year. The key framework contracts such as MSTAR continue to perform well but competition against this framework is growing.
9. Catalogue advertising is £80k down on budget and £29k down on the prior year.
10. **Margin**

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
STORES	11,713.1	38.9%	11,195.3	35.4%	10,703.5	34.6%
DIRECT	2,334.3	14.7%	2,580.7	14.6%	2,370.0	14.0%
GAS	389.4	2.8%	364.6	1.5%	311.5	1.5%
CATALOGUE ADVERTISING	875.6		955.0		904.2	
REBATE INCOME	6,049.7		6,108.0		6,108.2	
MISCELLANEOUS INCOME	284.3		170.0		124.3	
TOTAL MARGIN	21,646.2		21,373.6		20,521.7	

11. Overall margin is £273k ahead of budget principally down to higher stores margin.

12. A detailed analysis of the movement on stores margin is included below:



13. Directs mark-up is 14.7% compared to a budget of 14.6% and a prior year of 14.0%. The reasons being improved pricing and lower non recoverable one sided costs.

14. Miscellaneous income is higher than budget due to the sale of fixed assets surplus to requirements, MOV income and higher cash balances throughout the year.

Expenditure

COMBINED PRELIMINARY RESULTS**YEAR TO DATE**

ACTUAL

BUDGET

PRIOR YEAR

£000	%	£000	%	£000	%
------	---	------	---	------	---

EXPENDITURE**EMPLOYEES**

Staff	10,126.6	10,506.4	9,937.8
Agency/Contract	1,125.2	1,177.1	1,098.2
Total	11,251.7	11,683.5	11,036.0

OVERHEAD EXPENSES

Transport	1,850.8	1,829.1	1,898.9
Warehouse	1,787.6	1,693.4	1,841.1
Commercial	1,076.4	1,157.0	1,074.1
Total	4,714.9	4,679.5	4,814.1

Finance and IT

Finance and IT	1,191.6	984.7	1,136.2
Directorate	247.0	139.8	188.2
Total	1,438.6	1,124.5	1,324.3

Total

Total	6,153.5	5,804.0	6,138.4
--------------	----------------	----------------	----------------

TOTAL EXPENDITURE

TOTAL EXPENDITURE	17,405.2	17,487.5	17,174.5
--------------------------	-----------------	-----------------	-----------------

As % of Total Sales Excluding Gas

25.9%

24.9%

25.2%

15. Total expenditure is £82k lower than budget principally driven by lower staff costs. The lower staff costs are principally down to reduced FTE's.
16. Overhead expenses are £349k higher than budget driven by higher HR recharges absorbed in Directorate, dual running of Energy Systems (not budgeted), additional IT renewal provisions and warehouse consultancy costs investigating automation options.
17. The key metric of overheads as a percentage of sales is 1.0% adverse to budget (excluding gas).

FTE numbers are as follows

COMBINED PRELIMINARY RESULTS**YEAR TO DATE**

ACTUAL	BUDGET	PRIOR YEAR
--------	--------	------------

EMPLOYEES NUMBERS (Full-time equivalents):

Operations	169	185
Commercial	115	111
Finance, IT and Directorate	40	41
TOTAL EMPLOYEES	324	338

18. The total number of employees has thus fallen by 14 year on year. This reflects the increased competition from the private sector for the skilled staff in ESPO, generally leaving for higher salaries. The above is the year to date average figure. The actual FTE at the end of December was 313.

Surplus**COMBINED PRELIMINARY RESULTS****YEAR TO DATE**

ACTUAL	BUDGET	PRIOR YEAR
--------	--------	------------

£000	%	£000	%	£000	%
------	---	------	---	------	---

TRADING SURPLUS	4,241.0	5.2%	3,886.2	4.1%	3,347.2	3.8%
------------------------	----------------	-------------	----------------	-------------	----------------	-------------

19. Trading surplus is £355k ahead of budget.

20. The variance to budget is due to the following

- £273k favourable overall margin
- £82k overhead savings

21. At this level of out-turn clearly we can start the year cautiously optimistic about achieving the budget surplus for 2017-18. We know sales will be under some pressure as a result of market pressure and the impact of two Easters but this has been budgeted for.

22. As agreed the extra surplus over and above the budget of £355k will be earmarked as a reserve towards the warehouse mechanisation programme.

23. The overall allocation of the surplus compared to the prior year is as follows:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE			
	ACTUAL		PRIOR YEAR	
	£000	%	£000	%
TRADING SURPLUS	4,241.0	5.2%	3,347.2	3.8%
Allocation to Warehouse Automation	355		0	
Building Provision	400		400	
General Fund	697		589	
Dividend	2,789		2,358	

This represents an 18% increase in our dividend to our owner's year on year.

Service Line

24. 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

25. A detailed balance sheet and cash flow is included in appendix 2.
26. Overall stock levels are £509k higher than at last year end. This is principally a result of a new trading agreement with NUCO to manage the supply of exercise books from China. To ensure smoothness of supply stocks are now held in a warehouse at Felixstowe and called off as required for the warehouse in Enderby. This stock is owned by ESPO and was physically counted at year end. Stock availability remains over 98%.
27. Debtors are £317k lower than last year-end.
28. In December 2016 the dividend of £2.4m was paid to Members.

ESPO Balances

29. The General Fund balance is primarily to meet any adverse trading conditions, provide funding for stock balances and other expenditure prior to the receipt of income. Established practice is that 20% of operating surplus is added to this fund up to a maximum of 5% of turnover. For 2016/17, £0.7m has been added to the General Fund balance, representing 20% of surplus. The level of General Fund balance is expected to increase annually until the agreed maximum is attained according to the approved funding formula; this is not expected to be reached during the period of the current MTFS.
30. A breakdown of reserves as at 31 March 2017 is as follows:

COMBINED PRELIMINARY RESULTS**YEAR TO DATE**

ACTUAL

PRIOR YEAR

£000

£000

ESPO Balances

Strategic Review	0	400
Property Replacement	2,541	2,241
Warehouse Automation	2,500	0
Total Renewals Reserve	1,627	3,172
Total Cash Reserves	6,668	5,813
General Fund	4,325	4,225
Total Usable Reserves	10,993	10,038

31. Elsewhere on this agenda there is a paper detailing the creation of a £2.5m fund for the warehouse automation from current reserves subject to Member approval.

Resources Implications

32. None

Recommendation

33. The Management Committee is asked to consider and comment on the contents of the report and the attached appendices.

Equal Opportunities Implications

34. None

Risk Assessment

35. None identified

Officers to Contact

Mr J Doherty – Director (Tel: 0116 265 7931)

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

Appendices

Appendix 1 Service Line Analysis

Appendix 2 Balance Sheet and Cash Flow

This page is intentionally left blank

SERVICE LINE ANALYSIS

Mar-17

Mar-17

ACTUAL	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	41,847	0	0	0	41,847
DIRECT	0	18,228	0	0	18,228
GAS	0	0	14,375	0	14,375
CATALOGUE ADVERTISING	0	0	0	876	876
REBATE INCOME	0	0	939	5,111	6,050
MISCELLANEOUS INCOME	182	0	11	91	284
Total Sales	42,029.1	18,228.0	15,324.8	6,077.5	81,659.5
Less Cost of Sales	30,134	15,894	13,986	0	60,013
Surplus on Trading Account	11,895.2	2,334.3	1,339.2	6,077.5	21,646.2
Wages and Salaries	4,093	1,177	422	2,746	8,438
Agency Costs	1,029	9	0	22	1,060
Other Expenses	1,788	305	60	711	2,864
Transport	1,851	0	0	0	1,851
Total Expenditure	8,760	1,491	483	3,479	14,213
Operating Surplus	3,135.4	843.2	856.7	2,598.3	7,433.5
%	7.5%	4.6%	5.6%	42.8%	9.1%
<u>Contribution to Central Costs</u>					
Finance and IT	1,165	582	116	466	2,330
Marketing	0	0	0	0	0
Directorate	431	216	43	173	863
Net Surplus	1,539.1	45.0	697.0	1,959.8	4,241.0
	3.7%	0.2%	4.5%	32.2%	5.2%

Check Balance

Warehouse	Commercial
£000	£000
41,847	0
0	18,228
0	14,375
0	876
0	6,050
182	102
42,029.1	39,630.4
30,134	29,879
11,895.2	9,751.0
4,093	4,345
1,029	31
1,788	1,076
1,851	0
8,760	5,453
3,135.4	4,298.2
7.5%	53.0%
1,165	1,165
0	0
431	431
1,539.1	2,701.9
3.7%	37.0%

BUDGET	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	42,814	0	0	0	42,814
DIRECT	0	20,199	0	0	20,199
GAS	0	0	25,360	0	25,360
CATALOGUE ADVERTISING	0	0	0	955	955
REBATE INCOME	0	0	1,222	4,886	6,108
MISCELLANEOUS INCOME	113	0	0	57	170
Total Sales	42,927.3	20,198.5	26,581.2	5,898.1	95,605.1
Less Cost of Sales	31,619	17,618	24,995	0	74,231
Surplus on Trading Account	11,308.7	2,580.7	1,586.2	5,898.1	21,373.6
Wages and Salaries	4,364	1,209	438	2,821	8,832
Agency Costs	1,133	8	0	18	1,158
Other Expenses	1,693	324	78	755	2,850
Transport	1,829	0	0	0	1,829
Total Expenditure	9,020	1,540	516	3,594	14,670
Operating Surplus	2,288.3	1,040.4	1,070.6	2,304.1	6,703.4
%	5.3%	5.2%	4.0%	39.1%	7.0%
<u>Contribution to Central Costs</u>					
Finance and IT	1,023	512	102	409	2,046
Marketing	0	0	0	0	0
Directorate	386	193	39	154	771
Net Surplus	879.7	336.1	929.8	1,740.6	3,886.2
	2.0%	1.7%	3.5%	29.5%	4.1%

Check Balance

Warehouse	Commercial
£000	£000
42,814	0
0	20,199
0	25,360
0	955
0	6,108
113	57
42,927.3	52,677.8
31,619	42,613
11,308.7	10,065.0
4,364	4,468
1,133	25
1,693	1,157
1,829	0
9,020	5,650
2,288.3	4,415.1
5.3%	48.2%
1,023	1,023
0	0
386	386
879.7	3,006.5
2.0%	34.7%

ACTUAL V BUDGET VARIANCE	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	(967)	0	0	0	(967)
DIRECT	0	(1,970)	0	0	(1,970)
GAS	0	0	(10,985)	0	(10,985)
CATALOGUE ADVERTISING	0	0	0	(79)	(79)
REBATE INCOME	0	0	(283)	224	(58)
MISCELLANEOUS INCOME	69	0	11	34	114
Total Sales	(898.2)	(1,970.5)	(11,256.4)	179.5	(13,945.6)
Less Cost of Sales	(1,485)	(1,724)	(11,009)	0	(14,218)
Surplus on Trading Account	586.5	(246.5)	(247.0)	179.5	272.6
Wages and Salaries	272	32	15	75	395
Agency Costs	105	(2)	0	(4)	98
Other Expenses	(94)	19	18	44	(14)
Transport	(22)	0	0	0	(22)
Total Expenditure	261	49	33	115	458
Operating Surplus	326.0	(295.7)	(279.9)	64.6	730.1
%					
<u>Contribution to Central Costs</u>					
Finance and IT	(142)	(71)	(14)	(57)	(284)
Marketing	0	0	0	0	0
Directorate	(46)	(23)	(5)	(18)	(91)
Net Surplus	659.4	(291.1)	(232.7)	219.2	354.8

Warehouse	Commercial
£000	£000
(967)	0
0	(1,970)
0	(10,985)
0	(79)
0	(58)
69	45
(898.2)	(13,047.4)
(1,485)	(12,733)
586.5	(314.0)
272	123
105	(6)
(94)	81
(22)	0
261	197
847.1	(116.9)
(142)	(142)
0	0
(46)	(46)
659.4	(304.6)

This page is intentionally left blank

EASTERN SHIRES PURCHASING ORGANISATION

CONSOLIDATED MANAGEMENT BALANCE SHEET AS AT

Mar-17

Cash Flow from 01/4/2016 to

Mar-17

31st March 2016			Mar-17	
£	£		£	£
	11,167,083	FIXED ASSETS :		
		Net tangible Fixed Assets		11,939,509
		CURRENT ASSETS :		
4,533,539		Stocks	5,043,040	
7,137,273		Debtors	6,819,705	
327		Cash	265	
2,036,000		Short Term Investments	0	
10,060,525		Cash at Bank	11,711,582	
	23,767,664			23,574,592
		CURRENT LIABILITIES :		
629,856		Short Term Loan	620,901	
10,626,431		Creditors	8,910,646	
749,205		Other current Liabilities	-1,119,682	
	12,005,492			8,411,865
	11,762,172	NET CURRENT ASSETS		15,162,727
		LONG TERM LIABILITIES		
	7,500,000	Long Term Borrowings		7,000,000
	15,429,255	NET ASSETS		20,102,239
		REPRESENTED BY:		
	12,360,833	Usable Reserves		15,684,795
	3,068,421	Unusable Reserves		4,417,444
	15,429,254	Total Reserves		20,102,239

Surplus	4,241,013
AFINIMOFS	
Allocations to Maintenance and Equipment Reserves	209,658
Movement in Fixed Assets	(772,426)
Non Surplus movement in reserves	222,313
Total	3,900,558
Movement in Long Term Borrowings	(500,000)
Payment of Dividend	(2,358,281)
Movement in Long Term Items	(2,858,281)
(Increase)/Decrease in Stock	(509,501)
(Increase)/Decrease in Debtors	317,568
Increase/(Decrease) in Creditors	(1,235,346)
Movement in Working Capital	(1,427,279)
Total	(385,002)
Movement in Cash Balances	(385,002)

This page is intentionally left blank



MANAGEMENT COMMITTEE – 21 JUNE 2017

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 28 February 2017.

Supplier of the Year

2. ESPO has won the award for 'Supplier of the Year' after submitting a successful entry to the BESA Education Resources Awards 2017 in the category of 'Supplier of the Year: over £10m turnover'; this is its highest available accolade. This logo can now be used on upcoming marketing material and on the website.

Overall Financial Performance

3. Overall financial performance to March 2017 year to date is outlined below:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	41,847.0		42,814.0		41,673.7	
DIRECT	18,213.7		20,198.5		19,274.3	
CATALOGUE ADVERTISING	875.6		955.0		904.2	
REBATE INCOME	6,049.7		6,108.0		6,108.2	
MISCELLANEOUS INCOME	283.5		170.0		124.3	
TOTAL SALES	67,269.4		70,245.5		68,084.6	

- Total 'controllable' sales are broadly in line with prior year.
- Rebate income is £6.0m which is 1.0% down against budget;
- Total gross margin is £21.6m, which is up on budget by £0.3m and £1.1m up on the prior year. This is due to the good performance of stores margin, underpinned by effective sourcing activity on key lines;

- Total expenditure is £17.4m compared to a budget of £17.5m, a saving of £0.1m or 0.5%;
- Consequently, surplus is £4.2m compared to a budget of £3.9m, a positive variance of £0.3m.

4. Gas sales have performed as follows:



The difference in gas sales compared to the prior year is due to lower usage and reduced wholesale prices. Below is a comparison of kWh invoiced

- April 2015 to March 2016: 783,675,468kWh invoiced;
 - April 2016 to March 2017: 672,487,877kWh invoiced (-14%).
5. It should be noted that although the volume of gas supplied was lower and pricing achieved was reduced, the income achieved by ESPO actually grew as a result of new customers joining the portfolio. Income is generated through a fixed charge per meter, and is therefore not affected by the energy price or volume consumed by customers.
 6. A reduction in volume was a contributory factor in the reduced 'sales' value. ESPO's centrally billed gas customers consumed 14% less (672m kWh's in 2016-17 compared to 784m kWh's in 2015-16) in 2016/17 as a result of a warmer winter and energy reduction measures implemented by customers.
 7. As well as volume, gas 'sales' out-turned lower in 2016/17, due to a substantially lower price being achieved as a result of the forward buying strategy. This resulted in prices 12% lower than in the previous year.
 8. Wholesale prices fell significantly during 2015 and early 2016 to levels not seen for over eight years. Following consultation with the key stakeholder group, a departure from the agreed buying strategy was approved to enable forward buying of large volumes of gas for supply during the 2016/17 and 2017/18 financial years. This will provide budgetary certainty and protection.
 9. The benefit of this decision will therefore continue to be enjoyed by ESPO's customers until April 2018, and is now protecting them from subsequent increases in prices following the UK's decision to exit the European Union. A proportion of the volume required for 2018/19 has also been hedged, but the balance will be purchased at prevailing rates. If prices do not fall back in the meantime, this will nevertheless dilute the impact in 2018/19 of the full rise in wholesale prices.

10. The balanced scorecard for March is attached as Appendix 1.

ESPO Operational Progress

11. For the financial year ended 31 March 2017, Operations has processed and delivered a total of £41.9m of customer orders making 208,721 on-time deliveries weighing 15.02m kg. Warehouse picking was performed at a rate of 35 lines per hour. The average order value for 2016/17 was £120.67 a 9% increase over last year. Operational costs as a proportion of sales were in budget at 20.4%.
12. Customer sentiment measured by the FeeFo feedback service was 98% positive. The team has handled 191,011 calls in the financial year to date. This is down 4,491(4%) on last year, reflecting the market but also the impact of the Minimum Order Value (MOV). We are encouraging customers to transact on-line with us for placing orders and making queries. Currently, 24% of orders are processed online.
13. The stock optimisation team maintained product availability of 99.54% and through close consultation with the buying team have been steadily reducing the number of products that have been discontinued. Stock value was £5.355m with a stock-turn of 7.82. (Stock- turn is the number of times in a year we turn our stock over. For example if our cost of sales are 50 million per year and we have 5 million of stock we turn our stock over 10 times per year. The higher the number the better, it indicates good stock control).
14. An action plan for the nightshift restructuring commenced in December 2016, having been agreed with the unions at the Joint Consultative Committee. The consultation process is ongoing and the new structure came into effect on 1 April 2017.
15. A benchmarking exercise was undertaken to determine whether the current market premium (10% enhancement) for warehouse operatives working a rotating 6 am to 2 pm and 2 pm to 10 pm shift should continue in line with the current policy. The local labour market reflects a higher rate of pay than at ESPO and therefore it has been formally agreed that this 10% enhancement should continue and also prompted the introduction of a 5% enhancement for those working on a permanent late shift.
16. These market premiums will continue for a period of two years, at which time another benchmarking exercise should be undertaken to determine if the enhancements are still appropriate.
17. The transport planning team upgraded its scheduling system 'Roadshow' to the latest version. The new functionality will reduce the time it takes to schedule vehicles and also make the schedules visible to the warehouse planning team earlier in the day. This will enable picking staff plans to be created to meet the

need. In time, it is envisaged that customer orders can be processed earlier allowing the sales team to offer enhanced service to key customers.

18. A stock count at the Leicester warehouse and the Felixstowe out-base was conducted in line with year-end protocols, with no issues highlighted.

Staffing

19. The HR & OD Business Partner commenced working at ESPO for four-days per week with effect from 1 April 2017 to strengthen, support and deliver ESPO's people agenda.
20. ESPO's Procurement and Compliance team has undertaken the Myers-Briggs Development programme in order to have a better appreciation of their individual personal profiles. This will be built upon to further enhance performance within the team.
21. Mandatory training has been communicated to all ESPO staff and Phase 1 (Promoting Fairness & Respect (Equalities), Data Protection and Information Security, Fraud Awareness and Introduction to Health and Safety) is being successfully rolled out across the organisation with a good completion rate particularly in the Operations department.
22. Leicestershire County Council has agreed to provide insurance training to the Procurement and Compliance team in order to have a better knowledge of insurance requirements within tenders documentation, as well as creating and establishing new frameworks.
23. Apprenticeship opportunities are currently being discussed with all heads of service to align business needs and comply with our public sector duty to provide seven apprenticeships.
24. Attendance management and capability (performance) training was rolled out to section leaders and managers in April 2017.
25. Sickness absence continues to be managed in line with the policy and procedures and is currently at 9.75 days lost per FTE as at 31 March 2017. In 12 months, ESPO has reduced its sickness absence days lost by approximately 700 days.
26. The number of employee relations cases at ESPO has significantly increased with managers feeling better supported to deal with behaviour at work and managing performance issues which are either supported or led by HR.

ESPO Risk and Governance Update

Health, Safety, Wellbeing and Facilities Management

27. There was one RIDDOR reportable incident in the fourth quarter involving a Powered Pallet Truck which resulted in an injured foot.

28. Further, there were two strains or sprains, one bruise or bump and one person hit by an empty tote which did not result in any injury.
29. The Leicestershire County Council audit of Health & Safety was signed off in January with all supporting documentation provided to show adequate systems in place, such as document control, risk assessment register, and safe system of work documentation.
30. The security doors have been upgraded and quotes are being obtained to enhance building access security from the south end of the building (the service yard).
31. Quotes are currently being obtained for repairs to the roof which are estimated to be in the region of £130k. Floor repairs in the warehouse have taken place in April. Lighting improvements are ongoing in the warehouse, the benefits to the working environment are already being noticed.
32. The insurers (AIG) undertook a loss prevention inspection in February, rating ESPO as adequate to excellent. They did raise an issue about the current specification of the warehouse sprinkler heads; an independent contractor has been called in to inspect and advise on a solution.
33. The ESPO Leadership Team reviewed the tenders received for the installation of two electric car charging stations and support their installation. The cost of installation is less than £10k with an annual maintenance cost of c. £250 pa. Users will be recharged for usage.
34. In January, novice drivers completed fork lift reach truck licence. In March, all staff licenced on Manual Handling Equipment underwent refresher training.
35. In January, ESPO sent representatives to the Leicestershire County Council Workplace Wellbeing Group and ESPO's Health, Safety and Wellbeing Advisor subsequently set up a task and finish group to look at engaging ESPO staff in activities.

Corporate Risk Register

36. A separate paper has been prepared in response to a request from Management Committee for additional information on Major Risk Records which flag corporate risks which exceed risk tolerance.
37. ESPO Leadership Team held its quarterly review of Major Risk Records (MRRs) in May.
38. There are six high risks which are reviewed monthly:
 - MRR 25 Increased competition
 - MRR 38 Potential failure of the Optima implementation

- MRR 58 Risk of loss of major supplier on MSTAR framework resulting in disruption and/or loss of supply for customers and loss of income for ESPO
- MRR 63 Implications of exiting the European Union
- MRR 64 Energy Contracts financial risk exposure regarding variations
- CPR 03 Capacity to focus on development

39. The following risks have recently been mitigated to within acceptable tolerances:

MRR 46 Loss of income through not recovering all we are entitled to through supplier rebates, including on collaboration supply arrangements has been mitigated to within acceptable tolerances

This risk has been mitigated through:

- Monthly scrutiny of top frameworks performance
- 'Gap analysis' in senior team meetings
- An in-house Customer Relationship Management system supporting data collection

MRR 08 Potential governance failures by management

With robust processes in place across a wide range of governance matters, ESPO's Leadership Team is confident that there is a reduced likelihood of a governance failure.

40. At the request of ESPO, Leicestershire County Council's Internal Audit Team recently undertook a desktop review of the MSTAR supply chain and flagged it as 'partial assurance'. This framework reflects a £1bn managed spend which contributes to 6.7% of ESPO's rebate income. Because of the risk identified within ESPO and confirmed by Audit, MRR 58 related to this framework has been rewritten, its residual risk level raised, and a comprehensive risk review and mitigation plan included.

Modern Slavery and Human Trafficking

41. The Modern Slavery Act 2015 was enacted to make provision about slavery, servitude and forced or compulsory labour and about human trafficking, including provision for the protection of victims.
42. Stemming from this, the Transparency in Supply Chains provisions place legal obligations on all organisations above a certain turnover, and with UK operations, to publish an annual statement disclosing the steps that they are taking to ensure there is no slavery or human trafficking in their business and supply chains.
43. While ESPO, as a Local Authority Joint Committee, does not meet the definition of organisations covered by the Act and, therefore, is not required to publish a statement, 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.

44. 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.
45. Therefore, ESPO is in the process of finalising its statement which will be published on its website. The draft statement is attached as Appendix 2.

Resources Implications

46. None arising directly from this report.

Recommendation

47. Members are asked to note and support the contents of this report.

Officer to Contact

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

Appendices

Appendix 1: Balanced Scorecard

Appendix 2: Modern Slavery and Human Trafficking 2016-17 Statement (DRAFT)

This page is intentionally left blank

Management Summary & Key Projects Mar 17

Management Summary

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stores Sales	£2,483,213	£2,529,310	↓ -1.8%	£41,847,015	↓ -2.3%
Direct Sales	£1,394,739	£1,436,154	↓ -2.9%	£18,213,741	↓ -9.8%
Rebate plus fee income	£1,239,200	£1,274,000	↓ -2.7%	£6,049,758	↓ -1.0%
Total Sales (inc Gas & Rebates)	£6,613,730	£8,583,978	↓ -23.0%	£81,644,429	↓ -14.6%
Stores Margin %	37.15%	26.77%	↑ 10.39pp	27.99%	↑ 1.84pp
Directs Margin %	10.19%	12.78%	↓ -2.58pp	12.81%	↑ 0.04pp
Total Gross Margin inc Consumables Cost	£2,381,576	£2,187,021	↑ 8.9%	£21,645,351	↑ 1.3%
Total Expenditure	£1,633,144	£1,453,361	↓ -12.4%	£17,405,213	↑ 0.5%
Surplus	£748,432	£733,660	↑ £14,772	£4,240,137	↑ 9.1%
Net Profit Margin %	11.32%	8.55%	↑ 2.77pp	5.19%	↑ 1.13pp
Operations cost as a proportion of sales	29.5%	27.6%	↓ -1.91pp	20.9%	↑ 0.13pp
Expenditure as a proportion of Gross Margin	68.6%	66.5%	↓ -2.12pp	80.4%	↑ 1.41pp

Full year up to Feb 17 data....

	No. FTE at Feb 17 month end...	Cum No. days lost	No. of Days Lost per FTE TY Cum
Sickness Rate	317	3,081	10

MOV

	TY YTD	LY YTD	Var
AOV	£133.77	£119.96	↑ £13.81
Prop of orders over £15	96.4%	85.3%	↑ 11.05pp

This page is intentionally left blank

Modern Slavery and Human Trafficking Statement 2016-17

Introduction

This statement sets out the steps taken by ESPO during the year ending March 2017 to prevent modern slavery and human trafficking in its own business and its supply chains.

As a professional, responsible, and ethical public procurement organisation, ESPO recognises that it has a responsibility to take a robust approach to slavery and human trafficking.

ESPO is committed to preventing slavery and human trafficking in its corporate activities, and to ensuring that its supply chains are free from slavery and human trafficking.

Organisational structure and supply chains

ESPO is a customer-focused, public sector owned buying organisation. We're committed to getting the most for our customers by pursuing best practice in procurement, sourcing, supply chain partner support and management, contract management and EU compliance.

ESPO was established in 1981 as a Joint Committee under the Local Government Act 1972, and operates under the Local Authorities (Goods and Services) Act 1970.

ESPO is jointly owned by its six member authorities: Leicestershire County Council, Lincolnshire County Council, Cambridgeshire County Council, Norfolk County Council, Warwickshire County Council, and Peterborough City Council.

We offer our customers a complete procurement service including a market leading product catalogue, a range of frameworks compliant with EU and UK procurement regulations, and bespoke procurement support. Overall, our procurement activities engage with some 2,000 suppliers and account for annual contract values of £1.6 billion.

Our approximately 150 frameworks offer public sector customers access to a range of goods and services in the broad categories listed below (a full list of frameworks is available on our website <https://www.espo.org/Frameworks>). Supply of services through our frameworks is predominantly UK based:

- Building and Facilities Management
- Environmental services and waste management
- Highways and vehicles
- ICT
- Professional Services
- Food and catering
- Social care and health
- Energy

and through our catalogue covering around 27,000 products, supplied by some 750 suppliers, featuring a higher incidence of international supply chains for products commonly used in education, local government, charities, social landlords, emergency services, NHS, central government and the wider public sector, supplied from our 120,000 ft² distribution centre or direct from suppliers in the following categories:

- Cleaning and Catering
- Stationery
- office machines
- ICT
- Presentation and Audio Visual
- Early learning
- Curriculum
- Art & Design
- Site and Safety Management
- Furniture

Countries of operation

ESPO currently operates in the United Kingdom, at its head office and warehouse in Enderby, Leicestershire, and at a satellite warehouse and transport hub at Abertillery in Wales, from which deliveries of catalogue supplies are undertaken to locations throughout England and Wales, Scotland, and Northern Ireland using our own fleet or third party carriers.

Due Diligence Processes for slavery and human trafficking

As part of our risk identification and mitigation process we are developing systems to:

- Identify and assess potential risk areas
- Mitigate the risk of slavery and human trafficking occurring
- Monitor potential risk areas in our supply chains and in our own operations
- We also operate a Whistleblowing Policy, aimed principally at our employees but also available to others working in our supply chains which encourages staff to report any wrongdoing which extends to human rights violations like Modern Slavery.

Responsibility

Overall responsibility for ESPO's slavery and human trafficking initiatives rests with the Director, supported by representatives from procurement and compliance (including legal), commercial, operations and human resources.

Relevant policies

ESPO is subject to the policies of its servicing authority, Leicestershire County Council. The organisation operates the following policies that describe its approach to the identification of modern slavery risks and steps to be taken to prevent slavery and human trafficking in its operations;

- **Whistleblowing policy** The organisation encourages all its workers, customers and other business partners to report any concerns related to the direct activities, or the supply chains of, the organisation. This includes any circumstances that may give rise to an enhanced risk of slavery or human trafficking. Additional support is also available from the UK Modern Slavery Helpline 08000 121 700
- **Employee code of conduct.** The Code of Conduct makes clear to employees the actions and behaviour expected of them when representing the organisation. ESPO strive to maintain the highest standards of employee conduct and ethical behaviour. Any breaches are investigated and action taken as necessary. The Code also covers the policies on Declaration of Personal Interests, and on the receipt of Gifts and Hospitality:

<http://www.leicestershire.gov.uk/jobs-and-volunteering/working-for-the-council/employee-code-of-conduct>

Recruitment/Agency workers policy

ESPO recruits its employees via its servicing authority's in-house recruitment service in line with our Recruitment and Selection Policy. This policy outlines a strict recruitment and selection process to ensure that ESPO adhere to the recruitment standards and best practice whilst abiding to all relevant legislation.

Where agency workers are required, an element of the requirement is ordered in accordance with the terms of a framework agreement developed and managed by ESPO. A comprehensive procurement process was applied to select the providers available through the framework during which the practices of these agencies were verified. ESPO are aiming to draw other used agency suppliers into this framework agreement.

Due diligence

ESPO undertakes due diligence when taking on new suppliers, and regularly reviews existing suppliers.

Risk based approach

ESPO uses a risk based approach to managing its supply chains, based on risk by category, country, and the strategic importance of the product/service to ESPO.

ESPO's procurement is governed by the Public Contract Regulations 2015, and ESPO uses the standard supplier questionnaire which includes a section on the supplier's approach to the Modern Slavery Act, slavery and human trafficking in the supply chain. Suppliers with an annual turnover of £36m or more, fail the assessment process if they do not comply with the Act by failing to publish a Modern Slavery statement. As part of ESPO's due diligence on new suppliers, a method statement question at the assessment stage considers how the supplier manages its own supply chain risk.

Steps introduced in 2016-17:

- Major Risk Record raised to be frequently reviewed as part of corporate risk management
- review of ITT templates for frameworks and catalogue, including 'directs', 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
- contract clauses drafted for implementation in 2017-18 to cover slavery and human trafficking in the supply chain covering;
 - o sub contracting
 - o due diligence and supplier warranties
 - o 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
 - o audits and training
 - o compliance with laws and policies, and specifically the Modern Slavery Act
 - o early termination if a suspected or actual breach is discovered or reported
- pre-procurement risk assessment process under review to accommodate supply chain ethical risk including slavery and human trafficking, to reflect risk by category, country etc

due diligence and reviews include

- evaluating the modern slavery and human trafficking risks of each new supplier;
- commenced mapping the supply chain broadly to assess particular product/service category or geographical risks of modern slavery and human trafficking;
- incorporating slavery and trafficking risk in supplier and contract reviews, Performance indicators
The organisation has reviewed its key performance indicators (KPIs) in light of the introduction of the Modern Slavery Act 2015. As a result, ESPO:
- required all professional procurement staff to undertake and complete the CIPS e-learning module "Ethical Procurement and Supply 2016 v1" in 2016-17
- requires supply chain managers and HR professionals to have completed training on modern slavery by the end of 2017
- is developing and implementing a system for supply chain verification based on evaluation of potential suppliers before they enter the supply chain; and
- reviewing existing supply chains, with emphasis on those highlighted in risk assessments including as appropriate site visits/audits conducted by or on behalf of ESPO, predominantly at first tier or second tier suppliers
- Modern Slavery Statement added to a prominent position on ESPO's homepage website and included in the Annual Governance Statement
- No incidences of slavery or trafficking were identified or reported during 2016-17

Training

Slavery and human trafficking awareness training was delivered to Procurement Service Managers and Category Managers during 2016-17, and all professional procurement staff undertook the CIPS e-learning module "Ethical procurement and Supply 2016 v1".

This will be followed by further awareness and training for procurement and supply chain staff during 2017-18, alongside the development and enhancement of processes described above.

Approval

This statement has been approved by the organisation's [board of directors/members], who will review and update it annually.

[Director's] signature:

[]

[Director's] name:

[]

Date:

[]

This page is intentionally left blank



ESPO MANAGEMENT COMMITTEE – 21st JUNE 2017

CODE OF CORPORATE GOVERNANCE

REPORT OF THE DIRECTOR

Purpose of Report

1. To present to members the updated Code of Corporate Governance

Background

2. As a public body and a 'creature' of Statute, ESPO has to comply with all the statutory requirements imposed on Local Authorities as best practice. This includes transparency in terms of policies and standards and to recognise its public fiduciary duties in respect of public funds. ESPO will apply the principles of best value in the economic and effective use of its resources. As part of those responsibilities it must have in place proper arrangements for the governance of its operation including appropriate arrangements for the management of all risk.
3. In order to demonstrate good Corporate Governance ESPO seeks to adopt a Code of Corporate Governance, which is consistent with the principles of "The new Delivering Good Governance in Local Government Framework" (CIPFA Solace, 2016).
4. The Annual Governance Statement will be prepared for 2016-17 in accordance with this code.

Resources Implications

5. None

Recommendation

6. Members are asked to approve the revised Code of Corporate Governance

Equal Opportunities Implications

7. None

Background Papers

8. None

Officer to Contact

John Doherty, Director
j.doherty@espo.org 0116 2657931

Appendices

Code of Corporate Governance



**EASTERN SHIRES PURCHASING
ORGANISATION**

**CODE OF CORPORATE
GOVERNANCE**

Version Control

Version	Date	By whom	Changes	Comments
1	April 2013	EW/CP	Formulated /Review and Update	
2	April 2016	CP/SL	Review and Update	Circulation to John Doherty, Neil Jones, Caroline Huckerby, Chris Tambini and Mo Seedat
3	April 2017	SL	Review and Update (CIPFA/Solace 2016)	Circulation to the Leadership Team, Neil Jones, Chris Tambini and Mo Seedat and Management Committee.

Code of Corporate Governance

Contents

	PAGE
Section 1 – Introduction	1
Section 2 - Corporate Governance	2
Section 3 – Applying the Core Principles of Good Governance	3
Section 4 – Annual Review and Reporting	14

1. Introduction

- 1.1. ESPO, established constitutionally as a Joint Committee of Local Authorities in 1981, operates under the aegis of the Local Authorities (Goods and Services) Act 1970. The Local Authority owned purchasing consortium is governed by a Management Committee of elected representatives from member authorities.
- 1.2. There are currently 6 member authorities of ESPO and it should be noted that the organisation also trades extensively outside the membership area. Management of the organisation reports periodically to a Management Committee of two elected members from each authority.

The membership consists of:

Leicestershire County Council (ESPO's Servicing Authority)

Lincolnshire County Council

Cambridgeshire County Council

Norfolk County Council

Warwickshire County Council

Peterborough City Council

- 1.3. As a public body and a 'creature' of Statute, ESPO has decided to comply with all the statutory requirements imposed on Local Authorities as best practice. This includes transparency in terms of policies and standards and to recognise its public fiduciary duties in respect of public funds and local taxation. ESPO will apply the principles of best value in the economic and effective use of its resources. As part of those responsibilities it must have in place proper arrangements for the governance of its operation including appropriate arrangements for the management of all risk.
- 1.4. In order to demonstrate good Corporate Governance ESPO has approved and adopted a Code of Corporate Governance, which is consistent with the principles of "The new Delivering Good Governance in Local Government Framework" (CIPFA Solace, 2016) the purpose of this document is to set out in this code.

2. Corporate Governance

2.1. What is good Corporate Governance?

2.1.1. Good Corporate Governance will demonstrate to the public and other stakeholders that ESPO has its own house in order and is approaching the challenges it faces in a corporate and strategic way. Governance is about how ESPO ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Corporate Governance comprises the systems and processes and cultures and values by which ESPO is directed and controlled.

2.2. The Local Code of Governance

2.2.1. A joint Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) 2016 guidance note “The new Delivering Good Governance in Local Government” provides a framework, intended to be used as best practice for developing and maintaining a Code of Corporate Governance. Whilst Corporate Governance is a holistic concept it has been mapped out in the guidance note using seven core principles.

2.2.2. The ESPO Code of Corporate Governance has been developed in accordance with, and is consistent with “The new Delivering Good Governance in Local Government Framework” (CIPFA/SOLACE 2016).

2.3. Core Governance Principles of ESPO

2.3.1. Principle A:

Behaving with integrity, demonstrating strong commitment to ethical values with all our stakeholders, and respecting the rule of law.

2.3.2. Principle B:

Ensuring openness and comprehensive stakeholder engagement.

2.3.3. Principle C:

Defining outcomes in terms of sustainable economic, social and environmental benefits.

2.3.4. Principle D:

Determining the interventions necessary to optimize the achievement of intended outcomes.

2.3.5. Principle E:

Developing ESPO’s capacity, including the capability of its Leadership Team and all staff members.

2.3.6. Principle F:

Managing risks and performance through robust internal control and strong public financial management.

2.3.7 Principle G:

Implementing good practices in transparency, reporting, and audit to deliver effective accountability to all our stakeholders.

3. Applying the Core Principles of Good Governance

The seven core principles each have a number of supporting principles, which in turn have a range of specific requirements that apply across ESPO's organisation:

Core Principle A

Behaving with Integrity, demonstrating strong commitment to ethical values with all our stakeholders, and respecting the rule of law.

Supporting Principles	ESPO commits itself to:
A.1 Ensuring ESPO Members and Officers behave with integrity at all times in ways that exemplify high standards of conduct and effective governance.	<p style="text-align: center;">(A)</p> <p>Ensure that ESPO's Leadership team sets a tone for the organisation by creating a climate of openness, support and respect.</p> <p style="text-align: center;">(B)</p> <p>Ensure that standards of conduct and personal behaviour expected of Members and Officers and the work between Members, Officers and customers are defined and communicated clearly through Codes of Conduct and Protocols where appropriate</p> <p style="text-align: center;">(C)</p> <p>Ensure that arrangements are put in place to safeguard the fact that Elected Members and employees of ESPO are not influenced by prejudice, bias or conflicts of interest when dealing with various stakeholders. To ensure that these arrangements are monitored and maintained on a regular basis.</p>
A.2 Demonstrating ESPO's strong commitment to ethical values.	<p style="text-align: center;">(A)</p> <p>Ensure that systems and processes are designed in conformity with appropriate ethical standards mirroring those of the Servicing Authority. To continually monitor the effectiveness of these processes and systems in practice. Ensuring they permeate all aspects of the organisation's culture and operations.</p>

	<p>(B) To develop and maintain shared values for both the organisation and Officers reflecting customer expectations, and communicate these to all stakeholders.</p> <p>(C) Use the organisation’s shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the organisation.</p> <p>(D) Developing and maintaining an effective ethical standards framework.</p> <p>(E) Seek to establish, monitor and maintain ESPO’s ethical standards and performance.</p> <p>(F) Put in place arrangements to ensure that all external providers of services on behalf of ESPO are required to act with integrity and in compliance with high ethical standards expected by the organisation.</p> <p>(G) In pursuing the vision of a Joint Committee, agree a set off values against which decision making and actions can be judged. Such values must be demonstrated by ESPO’s behaviour both individually and collectively.</p>
<p>A.3 Respecting the rule of the law.</p>	<p>(A) Put in place arrangements to ensure Members and Officers demonstrate a strong commitment to adhere to rules and regulations. To ensure these arrangements are continuously monitored.</p> <p>(B) Provide training on a regular basis to ensure that all Statutory and key post holders and Members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.</p>

	<p>(C) Put in place arrangements to ensure all key policies, such as the Anti-Fraud and Corruption and Anti Bribery Policies are available to all staff and communicated across the organisation.</p> <p>(D) Ensuring corruption, misuse of power and breaches and dealt with effectively.</p> <p>(E) Recognising the limits of lawful action and observing both the specific requirements of legislation and the general responsibilities placed on ESPO by public law.</p>
--	--

Core Principle B

Ensuring openness and comprehensive stakeholder engagement.

Supporting Principles	ESPO commits itself to:
<p>B.1 Openness</p>	<p>(A) Ensure that ESPO as a whole is open and accessible and ensure that it has made a commitment to openness and transparency in all its dealings subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.</p> <p>(B) Make clear to themselves, all staff members and their customers to whom they are accountable and for what.</p> <p>(C) Publish an annual report on the activity of audits.</p> <p>(D) Hold Management Committee meetings in public unless there are good reasons for confidentiality. Minutes of the meeting are available on the internet unless there are good reasons for confidentiality.</p> <p>(E) Publish data annually and quarterly as appropriate and as required as per the Local Government Transparency Code 2015.</p>

<p style="text-align: center;">B.2 Engaging comprehensively with institutional stakeholders</p>	<p style="text-align: center;">(A)</p> <p>Ensure clear channels of communication are in place with all stakeholders. To put in place arrangements to ensure these relationships are based on trust, a shared commitment to change and a culture that promotes and accepts challenge amongst partnerships. To ensure that the added value of partnership working is explicit and transparent.</p> <p style="text-align: center;">(B)</p> <p>On an annual basis, publish a performance plan giving information on ESPO's strategy, plans and Statement of Accounts as well as information about its outcomes, achievements and the satisfaction of stakeholders in their experience of utilising ESPO contracts and services in the previous trading period.</p> <p style="text-align: center;">(C)</p> <p>Effectively engaging with institutional stakeholders' to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship is clear so that outcomes are achieved successfully and sustainably.</p> <p style="text-align: center;">(D)</p> <p>To develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.</p>
<p style="text-align: center;">B.3 Engaging stakeholders effectively</p>	<p style="text-align: center;">(A)</p> <p>Encourage, collect and evaluate the views and experiences of stakeholders.</p> <p style="text-align: center;">(B)</p> <p>Implement effective feedback mechanisms in order to demonstrate how their views have been taken in to account.</p> <p style="text-align: center;">(C)</p> <p>Ensuring that communication methods are effective and that members and officers are clear about their roles.</p>

Core Principle C

Defining outcomes in terms of sustainable economic, social and environmental benefits.

Supporting Principles	ESPO commits itself to:
<p>C.1 Defining Outcomes</p>	<p>(A) Develop and promote the purpose and vision, which is an agreed formal statement communicated to all stakeholders.</p> <p>(B) Review on a regular basis the vision for delivering excellent customer service and the implications for our governance arrangements.</p> <p>(C) Publish an Annual Report (or similar documents) on a timely basis to communicate ESPO'S activities and achievements, its financial position and performance.</p> <p>(D) Deliver defined outcomes on a sustainable basis within resources that are available.</p> <p>(E) Decide how the quality of service for customers is to be measured and make sure that the information needed to review service effectively and regularly is available.</p> <p>(F) Identifying and managing risks to the achievement of outcomes.</p>
<p>C.2 Sustainable economic, social and environmental benefits</p>	<p>(A) Decide how value for money is to be measured and make sure that the Management Committee has the information needed to review value for money and performance effectively.</p> <p>(B) Measure the environmental impact of policies plans and decisions.</p> <p>(C) Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision.</p>

	<p>(D) Determining and taking a longer term view with regard to decision making and balancing this with the risks associated and the interest of various stakeholders. Acting transparently where there are potential conflicts.</p>
--	--

Core Principle D

Determining the interventions necessary to optimize the achievement of intended outcomes.

Supporting Principles	ESPO commits itself to:
<p>D.1 Determining interventions</p>	<p>(A) Ensure that those making decisions for ESPO are provided with information that is fit for purpose – relevant, timely and gives clear implications of technical issues and their implications, including risks associated with those options. Therefore ensuring best value is achieved however services are provided.</p> <p>(B) Decide how the quality of service for customers is to be measured and make sure that the information needed to review service quality effectively and regularly is available.</p> <p>(C) Considering feedback from customers when making decisions about service improvements and put in place effective arrangements to identify and deal with failure in service delivery.</p>
<p>D.2 Planning interventions</p>	<p>(A) Establishing and implementing robust planning and control cycles that cover strategic and operational plans.</p> <p>(B) Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances.</p> <p>(C) Establishing appropriate key performance indicators (KPI's) /Balance Scorecard as part of the planning process in order to identify how the performance is to be measured.</p>

	(D) Preparing budgets with organisational objectives, strategies and the medium term financial plan in mind.
D.3 Optimising achievement of intended outcomes	(A) Ensuring the medium term financial strategy integrates and balances service priorities and the organisation's vision and mission statement. (B) Ensuring the medium term financial strategy sets the context for ongoing decisions on significant service issues or responds to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved.

Core Principle E

Developing ESPO's capacity, including the capability of its Leadership Team and all staff members.

<p>Supporting Principles E.1 Developing ESPO's capacity</p>	<p>ESPO commits itself to: (A) Reviewing operations on a regular basis to ensure their continuing effectiveness. (B) Recognising the benefits of partnerships and collaborative working where added value can be achieved. (C) Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.</p>
<p>E.2 Developing the capability of the ESPO's Leadership team and all staff members</p>	<p>(A) Developing procedures and protocols to ensure that the Servicing Authority, Member Authorities and the ESPO as an organisation are clear regarding their respective roles and that a shared understanding of roles and objectives is maintained.</p>

	<p style="text-align: center;">(B)</p> <p>Ensure that effective arrangements are in place for reviewing the performance of the Members and Officers as a whole and of individual Members and Officers and agreeing an action plan, which might, for example, aim to address any training or development needs. This will enable the organisation to respond successfully to changing legal demands as well as economic, political and environmental changes and risks by:</p> <ul style="list-style-type: none"> ▪ Ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged. ▪ Ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis. ▪ Ensuring personal, organisational and system wide development through shared learning, including lessons learnt from governance weakness both internal and external. <p style="text-align: center;">(C)</p> <p>Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the organisation.</p> <p style="text-align: center;">(D)</p> <p>Ensure that career structures are in place for Officers, to encourage participation and development and morale.</p> <p style="text-align: center;">(E)</p> <p>Provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis</p> <p style="text-align: center;">(F)</p> <p>Carrying out Performance Development Reviews on a regular basis which takes account of training or development needs.</p>
--	--

	<p>(G) Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals to maintain their own physical and mental wellbeing.</p> <p>(H) Taking steps to consider the Leadership Team's own effectiveness and ensuring they are open to constructive feedback from peer reviews and inspections</p>
--	--

Core Principle F

Managing Risks and performance through robust internal control and strong financial management.

Supporting Principles	ESPO commits itself to:
<p>F.1 Managing Risk</p>	<p>(A) Ensure that risk management is embedded into the culture of ESPO, with Members and managers at all levels recognising that risk management is part of their jobs and must be considered in all aspects of decision making.</p> <p>(B) Ensuring that responsibilities for managing individual risks are clearly allocated.</p>
<p>F.2 Managing Performance</p>	<p>(A) Ensuring good quality information, advice and support is available to ensure that services are delivered effectively which meet customer expectations.</p> <p>(B) Ensure that proper professional advice matters that have legal or financial implications are available and recorded well in advance of decision making and used appropriately.</p> <p>(C) Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the organisation's performance overall.</p> <p>(D) Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints.</p>

	<p>(E) Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements).</p>
<p>F.3 Robust internal control</p>	<p>(A) Develop and maintain an effective internal audit function which is independent of the executive and scrutiny functions.</p> <p>(B) Evaluating and monitoring the authority's risk management and internal control on a regular basis.</p> <p>(C) Ensuring effective counter fraud and anti – corruption arrangements are in place.</p> <p>(D) Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor and that their recommendations are listened to and acted upon.</p> <p>(E) Ensure that effective arrangements for whistle blowing are in place to which Members, staff and all those contracting with or appointed by ESPO have access.</p>
<p>F.4 Managing data</p>	<p>(A) Ensuring effective arrangements are put in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data.</p> <p>(B) Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies.</p> <p>(C) Put in place arrangements to regularly review the quality and accuracy of data used in decision making and performance monitoring.</p>
<p>F.5 Strong public financial management</p>	<p>(A) Ensuring financial management supports the medium term financial strategy and short term financial and operational performance.</p>

Core Principle G

Implementing good practices in transparency, reporting, and audit to deliver effective accountability to all our stakeholders.

Supporting Principles	ESPO commits itself to:
<p>G.1 Implementing good practice in transparency</p>	<p style="text-align: center;">(A) Writing and communicating reports for all stakeholders in an understandable style appropriate to the intended audience.</p> <p style="text-align: center;">(B) Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.</p> <p style="text-align: center;">(C) Adhering to the Local Government Transparency Code.</p>
<p>G.2 Implementing good practices in reporting</p>	<p style="text-align: center;">(A) Preparing the Statement of Accounts and Annual Governance Statement annually as best accounting practice.</p> <p style="text-align: center;">(B) Provide evidence to demonstrate good governance (Annual Governance Statement).</p> <p style="text-align: center;">(C) Ensuring the information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.</p>
<p>G.3 Assurance and effective accountability</p>	<p style="text-align: center;">(A) Ensuring that recommendations for corrective action made by external auditors are acted upon.</p> <p style="text-align: center;">(B) Ensuring an effective internal audit service is in place with direct access to the Management Committee. Ensuring recommendations are acted upon.</p>

	<p>(C)</p> <p>Review on a regular basis the vision for delivering excellent customer service and the implications for our governance arrangements.</p>
--	--

4. Annual Review and Reporting

- 4.1 Each year ESPO will carry out a review of its Governance arrangements to ensure compliance with this Code, “The new Delivering Good Governance in Local Government Framework” and current good practice. The purpose of the review will be to provide assurance that governance arrangements are adequate and operating effectively or to identify action, which is planned to ensure effective governance in the future.
- 4.2. The outcome of the review will take the form of an Annual Governance Statement prepared on behalf of the Management Committee and the Director. It will be submitted to the Management Committee for consideration and review.
- 4.3. ESPO has adopted the Account and Audit (England) regulations 2015 as best practice. Therefore the preparation and publication of the Governance Statement will meet the statutory requirement of the Accounts and Audit (England) Regulations 2015. This requires Local Authorities to “conduct a review at least once in a year of the effectiveness of its system of internal control” and to approve an Annual Governance Statement, prepared in accordance with proper practices in relation to internal control. As such the Governance Statement will be prepared in accordance with the timetable in preparation of financial statements in accordance with the Accounts and Audit (England) Regulations 2015.

This page is intentionally left blank

By virtue of paragraph(s) 4, 10 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 4, 10 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank