EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

CONSORTIUM SECRETARY: JOHN SINNOTT, MA, Dipl. P.A.,
CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date:	4th September 2018
My Ref	CT/ESPO
Please ask for:	Cat Tuohy
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e-mail:	cat.tuohy@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, 12 September 2018 at 10.30 am at ESPO, Grove Park, Leicester. LE19 1SY.

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,

Cat Tuohy
for Consortium Secretary

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 13 June.		(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.	Presentation by PWC of External Audit Report and Opinion.	Director and Consortium Treasurer	(Pages 9 - 10)
5.	Statement of Accounts and Annual Governance Statement.	Director and Consortium Treasurer	(Pages 11 - 82)

6.	Director's annual report 2017/18.	Director	(Pages 83 - 88)
7.	Annual review of organisational approach to risk management.	Director	(Pages 89 - 112)
8.	Director's Progress update.	Director	(Pages 113 - 122)
9.	Any other items which the Chairman has decided to take as urgent.		
10.	Dates of Future Meetings.		

The next meeting of the Committee is scheduled to take place on Monday 26th November 2018 at 2.00pm at County Hall, Glenfield.

Future meetings of the Management Committee are scheduled to take place on the following dates at County Hall unless specified:

27th February 2019 - 10.30am
19th June 2019 - 10.30am
19th September 2019 - 10.30am (ESPO, Grove Park)
21st November 2019 - 10.30am

11. Exclusion of the Public.

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

12.	Supplementary Director's report.	Director	(Pages 123 - 134)
13.	MTFS monitoring for the first four months of 2018/19.	Director and Consortium Treasurer	(Pages 135 - 142)

Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Wednesday, 13 June 2018.

PRESENT

Cambridgeshire County Council
Cllr. M. Howell

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

Lincolnshire County Council
Cllr. R. Butroid
Mrs. S. Rawlins CC

Norfolk County Council
Cllr. J. Fisher

Peterborough City Council
Cllr. D. Seaton

Warwickshire County Council
Cllr. H. Timms

1. Election of Chairman.

Cllr D. Seaton was appointed Chairman for the municipal year ending April 2019.

Cllr D. Seaton in the Chair

2. Chairman's Announcements.

The Chairman thanked Dr Feltham CC for his work as Chairman of the Management Committee for the Period May 2017 to May 2018. He reminded Members that during his period of office Dr Feltham had overseen the following;

- A safe working environment with a refreshed focus on health and safety awareness.
- Increasing reserves and a growing financial return paid to its owners through dividends.
- High customer service standards with 6,000 regular education customers and a 'feefo' rating in the mid 90 percent.
- The award of 'Supplier of the Year' in the large category of the Education Resource Awards.
- The recruitment process for a new ESPO director following the resignation of the previous ESPO Director.

Members of the committee echoed the Chairman's comments.

Dr Feltham thanked the Chairman and the Committee for their kind words.

3. Election of Vice Chairman.

Cllr R. Butroid was appointed Vice-Chairman for the municipal year ending April 2019.

4. Apologies.

Apologies were received from Cllr Jones (Norfolk County Council), Cllr Butlin (Warwickshire County Council) and Cllr Holdich MBE (Peterborough City Council).

5. Minutes.

The minutes of the meeting held on 28 February 2018 were taken as read, confirmed, and signed.

6. Urgent Items.

The Chairman advised that there was one urgent item for consideration; a report of PricewaterhouseCoopers (PwC): "External Audit Plan – 2017/18". He advised that, with the consent of Members, he intended to vary the order of business from that set out on the agenda and to take this as agenda item 13 (minute 132 below).

7. Declarations of interests.

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

No declarations were made.

8. Items referred by the Finance and Audit Subcommittee.

There were two items referred by the Finance and Audit Subcommittee covered in items 8 (minute 128) and 16 (minute 135).

9. 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 28 February. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

Members noted that ESPO was facing another record year surplus of between £4.2m to £4.5m as had previously been reported in the year.

RESOLVED:

a) That the contents of the report be noted.
b) That a letter of condolence be sent to the widow of Mr Tim Benson.

10. Change to the order of business.

The Chairman, with the consent of the Committee, confirmed a change to the order of business to that set out on the agenda.

11. Exclusion of the public.

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting for the items shown below, on the grounds that it will involve the likely disclosure of exempt information, and in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information during consideration of the following items of business:

‘Item 11 - Supplementary Information Informing the Progress Report of the Director's Progress Update’

12. Directors Progress Update - Private.

The 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 15’, 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).

In response to questions regarding the acquisition, members were advised as follows:

i) The due diligence included a review of accounts up to May 2018, and no issues had been identified.

ii) The transactional costs outlined included the potential costs of redundancy

iii) The risks associated with documentation and data protection were within acceptable parameters.

RESOLVED:

That the supplementary report of the Director be noted.

(THE MEETING THEN RECONVENED INTO PUBLIC SESSION)

13. Draft Outturn 2017/18.

The Committee considered an report of the Director and Consortium Treasurer outlining the draft Outturn for 2017/18. A copy of the report, marked ‘Agenda Item 8’, is filed with these minutes.

Members were advised that despite a tough marketplace which would continue to present significant challenges for the foreseeable future the ambition remained to achieve a £6million surplus by 2021.

It was noted ESPO retained a high reserve level, but that this had allowed ESPO to take action quickly on opportunities that could arise rather than wait for investment funds to be agreed from the owners. The position on reserves would be closely monitored and reported on to the Management Committee.

RESOLVED:

That the draft outturn 2017/18 be approved.

14. A Report into the use of Plastics in ESPO's Supply Chain.

The Management received a report from the Director which provided information on the use of Plastics in ESPO's supply chain. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

A supplementary paper outlining the current position regarding the update of Leicestershire County Council Environment Strategy was tabled at the meeting and a copy is filed with the minutes.

There were a range of options ESPO could pursue to respond to the environmental concerns surrounding the use of plastics. The aim was to embed as many of the actions listed in paragraph 48 as was feasible, which Members agreed was both morally necessary and good business sense.

RESOLVED:

That the Committee note the report and that an update on progress be made to the Committee in twelve months time.

15. Proposed Changes to the Contract Procedure Rules.

The Committee considered a report of the Director outlining the operation of the Contract Procedure Rules between 1 July 2016 and 30 June 2017 and seeking approval of the proposed amendments to the Contract Procedure Rules from 1 July 2018.

RESOLVED:

a) That the contents of the report on the operation of the contract procedure rules between 1 July 2016 and 31 June 2017 be noted;

b) That the proposed amendments to the Contract Procedure Rule detailed in Appendix B be approved.

16. Outcome of Internal Audit Service Peer Review

The Committee considered a report of the Consortium Treasurer on the outcome of the Internal Audit Service Peer Review. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

RESOLVED:

That the outcome of the internal peer review be noted.

17. External Audit Plan 2017/18.

The Committee considered this matter, the Chairman having decided that it was of an urgent nature, in view of the need to agree the audit plan going forward.

The Committee considered the External Audit Plan – 2017/18 presented by Alison Breadon from PricewaterhouseCoopers (PwC). The report outlined potential areas of audit risks, the audit timetable, and the fees charged for auditing.

RESOLVED:

a) That the External Audit Plan 2017/18 be noted;

b) That the level of materiality for reporting to the Management Committee be set at £75,000.

18. Date of Next Meeting.

It was noted that the next meeting of the Committee would be held on Wednesday 12 September 10.30am at ESPO.

19. Exclusion of the Public.

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting for the items shown below, on the grounds that it will involve the likely disclosure of exempt information, and in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information during consideration of the following items of business:

‘Item 16’ Internal Audit Service – Annual Report 2017-2018.

20. Internal Audit Service - Annual Report 2017-18.

The Committee received an exempt report from the Consortium Treasurer on the Internal Audit Service Annual Report 2017-18. A copy of the exempt report, marked ‘Agenda Item 16’, 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).

RESOLVED:

That the Internal Audit Service Annual Report for 2017/18 be noted together with the actions taken in respect of the high importance recommendations.

CHAIRMAN

13 June 2018

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ESPO MANAGEMENT COMMITTEE – 12 SEPTEMBER 2018

EXTERNAL AUDIT OF THE 2017/18 FINANCIAL STATEMENTS

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TRESURER

Purpose of Report

1. To report the key findings from the external audit of the 2017/18 financial statements and to present the letter of representation from the Consortium Treasurer to the auditors.

Background

2. PricewaterhouseCoopers (PwC), the external auditors, are required to communicate the results of the 2017/18 audit of ESPO's financial statements to those charged with governance prior to certifying the statement of accounts.

3. At the time of writing this report the external audit report had yet to be finalised. It is anticipated that this will be done and circulated to members of the Committee by Friday, 7th September 2018.

4. The PwC Auditor responsible for the audit will attend the Committee meeting on the 12 September to communicate any significant findings and answer any questions.

Recommendation

5. The Committee is asked to consider the external audit of the financial statements 2017/18.

Background Papers

6. None.

Officer to Contact

Mr K Smith – Director OF ESPO

Mr C Tambini – Treasurer to the Consortium

ESPO

ESPO MANAGEMENT COMMITTEE – 12 SEPTEMBER 2018

DRAFT STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2017/18

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the Statement of Accounts and Annual Governance Statement for the financial year 2017/18.

Background

2. Local Authority Accounting requires the organisation to approve the Statement of Accounts and Annual Governance Statement for the financial year 2017/18 and receive the Auditor's report by the end September 2018.

Draft Statement of Accounts and Annual Governance Statement 2017/18

3. The Draft Statement of Accounts and Annual Governance Statement for 2017/18 are attached as Appendix A.

4. Price Waterhouse Coopers (PWC) commenced final audit of the accounts on 9th July for three weeks. The draft audit opinion is considered elsewhere on the agenda.

Key Points

5. Value of Pension Deficit: The closing position as at 31st March 2018 was a net deficit of £18,697k (Prior Year: £18,401k). This is shown as "Net Pension Liability" on the face of the balance sheet and more detail is included in note 17 to the accounts. The increase is down to changes in financial assumptions, primarily being increasing life expectancy.

6. The inclusion of the pension liability also impacts on other parts of the accounts, including making the net assets of ESPO a surplus of £350k (PY: net assets a deficit of £1,298k)

7. Value of Land and Buildings: The Grove Park premises were valued at £12.6m (PY - £12.1m) in accordance with professional guidelines. The outstanding long term loan now stands at £6.0m

(PY £6.5m)

8. Net Surplus: Clearly such material balances have a significant impact on the reported net surplus which after all dividends, pension deficits and surplus shows a net surplus of £1,648k (PY Deficit £3,766k). Taken one year with another this is a net deficit of £2,118k.

Statutory regulations allow the pension deficit to be reversed in the accounts (replaced by the actual amounts agreed with the Actuary). There is therefore no direct impact on the dividend.

Resources Implications

9. No specific implications.

Recommendation

10. The Management Committee is asked to approve the Draft Statement of Accounts for 2017/18 and the Annual Governance Statement.

Equal Opportunities Implications

11. None

Background Papers

None

Officers to Contact

Mr C Tambini –Consortium Treasurer (Tel: 0116 305 7831)
Mr K Smith – Director of ESPO (Tel: 0116 265 7930)

Appendices

Appendix A – Statement of Accounts and Annual Governance Statement

Explanatory Foreword

Introduction

The published accounts of the Eastern Shires Purchasing Organisation (ESPO) are presented in this booklet.

About ESPO

ESPO is a Joint Committee set up under Section 102 of the 1972 Local Government Act. The member authorities at 31 March 2018 were Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

ESPO's main objective is the provision of a professional, comprehensive, value for money purchasing, contracting and supplies service for member authorities and other public bodies under the provisions of the Local Authorities (Goods and Services) Act 1970.

In financial terms ESPO has a statutory obligation to recover its operating costs but to keep these at a minimum commensurate with the level of service required and the long-term development of the organisation. Any surplus which accrues is distributed to member authorities after a transfer to reserves, held as a working balance, in line with a formula agreed by ESPO's Management Committee.

Performance in 2017-2018

In a difficult trading environment ESPO has achieved a record surplus. This allows ESPO to continue investing in low prices, excellent service and high quality procurement expertise.

Tight control has been maintained over spending both on staff and operating expenses, and this has resulted in a Net Surplus in the management accounts of £4.3M. This enables the announcement of a £3.1M dividend distribution to members for 2017-2018.

Future Prospects

In order to mitigate the possible adverse effects of Local Authority spending constraints on future sales volumes ESPO continues to market its goods and services to a broad public sector audience within and beyond its member areas. This strategy supported the successful performance in 2017-2018 and will be continued in line with ESPO's four year strategy and the medium term financial plan.

Explanatory Foreword (continued)

ESPO's Accounts

The following accounting statements represent ESPO's accounts for the 2017-2018 financial year and have been prepared on a going concern basis. The statements and notes are presented in a way that is intended to meet the common needs of most users with the objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the consortium, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authorities services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required to be charged to the General Fund Balance. The Net Increase/Decrease before transfers to earmarked reserves line shows the Statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the consortium.

Comprehensive Income and Expenditure Statement:

This statement shows the accounting cost during the year of providing services in accordance with generally accepted accounting practices. It is fundamental to the understanding of the consortium's activities in that it summarises trading income and expenditure for the year ending 31 March 2018 of all functions for which ESPO is responsible.

The consortium recovers operating costs by the addition of a small on cost within the prices charged to customers and by retrospective rebates from suppliers.

Balance Sheet:

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the consortium. The net assets of the consortium (assets less liabilities) are matched by the reserves held by the consortium. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the consortium may use to provide services, subject to the need to maintain a prudent level of reserves. The second category of reserves is those that the consortium is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Cash Flow Statement:

This Cash Flow Statement shows the changes in cash and cash equivalents of the consortium during the reporting period. The Statement shows how the consortium generates and uses cash and cash equivalents as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the consortium are funded from the receipts for services provided by the consortium. Investing activities represent cash outflows that have been made for resources which are intended to contribute to the consortium's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the consortium.

Local Government Pension Scheme:

The staff of ESPO are employed by Leicestershire County Council, on a rechargeable basis, although ESPO determines the staffing levels. Employees are eligible for membership of the Local government Pension Scheme (LGPS). The net pension liability for ESPO was £18.7M as at 31 March 2018 compared with £18.4M as at 31 March 2017. The position has deteriorated mainly due to an increase in liabilities as a result of a decrease in the net discount rate over this period and an increase in the assumptions used for future inflation rates and salary increases. The discount rate is the main contributor and is used to place a value on the liabilities. The rate is referenced to the market yields on high quality corporate bonds, which have shown a long-term increase over the duration of the expected liabilities resulting in a lower value being placed on liabilities.

Explanatory Foreword (continued)
Local Government pension Scheme (continued)

The pension fund is revalued every three years and employers contributions amended to reflect the requirement to reduce the current net liability. The latest triennial valuation was 1 April 2016 with revised employer contribution rates effective from 1 April 2017.

Prior to 31 March 2017 a separate fund value was not identified for ESPO employees and therefore details were contained within Leicestershire County Council's annual Statement of Accounts. Now that is information is available the details are included within ESPO's annual Statement of Accounts and the prior year opening balances have been restated.

Authorisation of Accounts:

The Statement of Accounts presents a true and fair view of the financial position of the organisation at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Date of Authorisation:

The accounts were authorised for issue on 8 June 2018.

K. Smith
Director of ESPO

Date: 12/09/2018

C. Tambini
Consortium Treasurer

Date: 12/09/2018

The Eastern Shires Purchasing Organisation Consortium's Responsibilities

The consortium is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs; for the consortium that officer is the Director of Finance of Leicestershire County Council who is the Consortium Treasurer;

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- Approve the Statement of Accounts.

These accounts were approved at a meeting of the consortium Management Committee on 12 September 2018.

Cllr. D. Seaton

Chairman, ESPO Management Committee

Date: 12/09/2018

The Consortium Treasurer's Responsibilities

The Consortium Treasurer is responsible for the preparation of the consortium's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom 2017/18.

In preparing this Statement of Accounts for the year ended 31 March 2018, the Consortium Treasurer has:

- Ensured that suitable accounting policies have been selected and applied consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code of Practice.

The Consortium Treasurer has also ensured that:

- Proper accounting records have been maintained and kept up to date;
- Reasonable steps were taken for the prevention and detection of fraud and other irregularities.
- The Statement of Accounts give a true and fair view of the financial position of ESPO at the reporting date and of its expenditure and income for the year ended 31st March 2018.

C Tambini

Director of Finance of Leicestershire County Council (Consortium Treasurer of ESPO)

Movement in Reserves Statement
For the year ended 31st March 2018

	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs and Renewals Reserve	Earmarked Property Maintenance Reserve	Strategic Review Implementation	Warehouse Automation	Total usable Reserves	Unusable Reserves	Total Reserves	Note
	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Balance at 1st April 2016 Carried Forward	**4,225**	**(29)**	**3,201**	**2,241**	**400**	**0**	**10,038**	**(7,570)**	**(2,468)**	
Movement in Reserves during 2016-17										
Total Comprehensive Income and Expenditure	729						729	(4,495)	(3,766)	
Adjustments between the accounting basis and funding basis under regulations	679		(331)				348	(348)		5
Net Increase/(Decrease) before Transfers to Earmarked Reserves	1,408		(331)				1,077	(4,843)	(3,766)	
Transfers (from)/ to Earmarked Reserves	(1,308)	29	(1,231)	410	(400)	2,500				6
Increase/(Decrease) in 2016-17	100	29	(1,562)	410	(400)	2,500	1,077	(4,843)	3,766	
Balance at 1st April 2017 Carried Forward	**4,325**	**0**	**1,639**	**2,651**	**0**	**2,500**	**11,115**	**(12,413)**	**(1,298)**	
Movement in Reserves during 2017-18										
Total Comprehensive Income and Expenditure	(420)						(420)	2,068	1,648	
Adjustments between the accounting basis and funding basis under regulations	1,573		(101)				1,472	(1,472)		5
Net Increase/(Decrease) before Transfers to Earmarked Reserves	1,153		(101)				1,052	596	1,648	
Transfers (from)/ to Earmarked Reserves	(371)	2,500	(35)	406		(2,500)				6
Increase/(Decrease) in 2017-18	782	2,500	(136)	406	0	(2,500)	1,052	596	1,648	
Balance at 31st March 2018 Carried Forward	**5,107**	**2,500**	**1,503**	**3,057**	**0**	**0**	**12,167**	**(11,817)**	**350**	

Comprehensive Income and Expenditure Statement
For the year ended 31 March 2018

2016-17				2017-18			Notes
Gross Expenditure	Gross Income	Net (Income) Expenditure		Gross Expenditure	Gross Income	Net (Income) Expenditure	
£000	£000	£000		£000	£000	£000	
59,533	(80,948)	(21,415)	Invoiced Turnover	58,030	(79,588)	(21,558)	
59,533	(80,948)	(21,415)	Total	58,030	(79,588)	(21,558)	
11,245		11,245	Employees	11,224		11,224	22, 28
470		470	Other Employee Expenses	1,440		1,440	
723		723	Premises	720		720	
1,815		1,815	Transport	1,801		1,801	
1,533		1,533	Equipment	1,495		1,495	
248		248	Office Expenses	250		250	
1,079		1,079	Other Expenses	1,138		1,138	
134		134	Support Service Charges	4		4	
76,780	(80,948)	(4,168)	**Net Cost of Services**	76,102	(79,588)	(3,486)	
2,800	(74)	2,726	Other Operating expenditure	3,126	23	3,149	7
750	(37)	713	Financing and Investment Income and Expenditure	788	(31)	757	8
80,330	(81,059)	(729)	**Deficit/(Surplus) on Provision of Services**	80,016	(79,596)	420	
		(1,166)	Surplus on revaluation of Property, Plant and Equipment assets			(717)	9
		5,661	Remeasurement of the Net Defined Benefit Liability			(1,351)	
		4,495	**Other Comprehensive Expenditure and Income**			(2,068)	
		3,766	**Total Comprehensive Expenditure and Income**			**(1,648)**	

Balance Sheet
As at 31st March 2018

	31 March 2017	31 March 2018	Notes
	£000	£000	
Property, Plant and Equipment	12,789	13,199	9
Intangible Assets	105	22	10
LongTerm Assets	12,894	13,221	
Inventories:			
Central Stores Stocks	5,043	5,187	12
Short Term Debtors	6,820	7,993	11,13
Cash and Cash Equivalents	11,712	12,021	11,14
Current Assets	23,575	25,201	
Short Term Borrowing	(720)	(656)	11
Short Term Creditors	(8,834)	(9,174)	11,15
Other Current Liabilities	(3,312)	(3,545)	15
Current Liabilities	(12,866)	(13,375)	
Long Term Borrowing	(6,500)	(6,000)	11,30
Net Pensions Liability	(18,401)	(18,697)	17
Other Long Term Liabilities	0	0	11
Long Term Liabilities	(24,901)	(24,697)	
Net (Liabilities) / Assets	(1,298)	350	
Total usable Reserves	11,115	12,167	16
Unusable Reserves	(12,413)	(11,817)	17
Total Reserves	(1,298)	350	

The notes on pages 10 to 52 form part of the Statement of Accounts.

Cash Flow Statement
For the year ended 31st March 2018

2016/17		2017/18	Note
£000		£000	
(729)	Net (Surplus) / Deficit on the provision of services	420	
(2,060)	Adjustments on provision of services for non-cash movements	(4,142)	18
(214)	Adjustments for items included in the net (surplus) on the provision of services that are Investing and Financing activities	(286)	18
2,646	Net cash flows adjustments to operating activities	3,064	19
(357)	Total net cash flow from operating activities	(944)	
122	Investing Activities	71	20
620	Financing Activities	564	21
385	Net decrease / (increase) in cash and cash equivalents	(309)	
12,097	Cash and cash equivalents at the beginning of the reporting year	11,712	14
11,712	Cash and cash equivalents at the end of the reporting year	12,021	14

Notes to the Accounts

1. Accounting Policies

a. Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which give a true and fair view of the financial position and performance and cash flows of the organisation. The Statement of Accounts are prepared with due regard to the following:

- Understandability – Allowing the stakeholder to interpret the financial position of the organisation.
- Relevance – Providing relevant financial information which aid user's to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations.
- Materiality - An item of information is material to the Statement of Accounts if its misstatement or omission might reasonably be expected to influence assessment of the organisation.
- Reliability - Providing financial information that rests on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user that it has that representational quality, is free from material error, is neutral and which has been prudently prepared.
- Comparability – The Statement of Accounts are consistent and are comparable with prior years.

The Statement of Accounts, other than the Cash Flow Statement have been prepared on an Accruals basis, the effect of transactions and other events are recognised when they occur and they are recorded in the accounting records and reported in the accounts in the periods to which they relate.

The Statement of Accounts have also been prepared on the assumption that Eastern Shires Purchasing Organisation will continue in operational existence into the foreseeable future and the accounting policies have been consistently applied.

b. General Principles

The Statement of Accounts summarises ESPO's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. ESPO prepares an annual Statement of Accounts by the Accounts and Audit Regulations 2015 as best practice, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory guidance as detailed in the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The purpose of this statement is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the organisation's accounts.

1. Accounting Policies (continued)

c. Accruals of Income and Expenditure:

The organisation's trading activity is accounted for in the year that it takes place and not when cash payments are made or received. In particular:

Revenue from the sales of goods is recognised when ESPO transfers the significant risks and rewards of ownership to the purchaser and it is likely that economic benefits associated with the transaction will flow to ESPO.

Revenue from the provision of services is recognised when ESPO can measure reliably the percentage of completion of the transaction and it is probable that economic benefits associated with the transaction will flow to ESPO.

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

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are posted to the relevant service revenue account unless they represent capital receipts or capital expenditure.

d. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents may be shown net of any temporary bank overdrafts that are repayable on demand and form an integral part of the organisation's cash management.

e. Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the note to the accounts, depending on how significant the items are to an understanding of ESPO's financial performance.

1. Accounting Policies (continued)

f. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current or future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events or conditions on the organisation’s financial position or financial performance. When a change is made it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy has always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

g. Charges to Revenue for Non-Current Assets

For statutory accounting purposes, services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are accumulated revaluation gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets

For the determination of its income requirements, ESPO is not required to include depreciation, revaluation and impairment losses or amortisation. For management accounting purposes, these are replaced by revenue contributions to the Earmarked Repairs and Renewals Reserve and Earmarked Property Maintenance Reserve for the replacement of non current and intangible fixed assets.

h. Employee Benefits

Benefits Payable during Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid annual sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the organisation. An accrual is made for the cost of holiday entitlement (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end which employees carry forward into the next financial year. The accrual is made at the wages or salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

The Local Government Pension Scheme

In accordance with the International Accounting Standard 19 – Employee Benefits (IAS 19), ESPO is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for ESPO.

The Local Government Scheme is accounted for as a defined benefits scheme and is administered by our Servicing Authority, Leicestershire County Council.

1. Accounting Policies (continued)

h. Employee Benefits (continued)

The liabilities of the scheme attributable to ESPO are included in the Balance Sheet on an actuarial basis using the 'projected unit method'. This is based on an assessment of future payments that will be made in relation to retirement benefits earned to date by employees and assumptions about mortality rates, employee turnover and projected earning for current employees.

Liabilities are discounted to their value at current prices using a discount rate at a rate shown within the assumptions used in the pension fund.

The assets of the fund attributable to the Authority are included in the Balance Sheet at fair value:

Quotes securities – current bid price
Unquoted securities – professional estimate
Unitised securities – current bid price
Property – market value

The change in the net pensions liability is analysed into the following components:

Service Cost comprising

Current service cost

The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to employees.

Past service cost

The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Net interest on the net defined benefit liability (asset)

As an example the net interest for ESPO is the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment income and Expenditure line in the Comprehensive income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising

The return on plan assets

Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses

Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Pension Fund

Cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

1. Accounting Policies (continued)

h. Employee Benefits (continued)

In relation to retirement benefits, statutory provisions require the General fund Balance to be charged with the amount payable by ESPO to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace with debits and credits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Awards

ESPO also has restricted powers to make discretionary awards of retirement benefits in the events of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

i. Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

j. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the balance sheet when ESPO becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that ESPO has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

ESPO possesses only one type of financial asset - Loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market.

1. Accounting Policies (continued)

j. Financial Instruments (continued)

Loans and receivables are recognised on the Balance Sheet when ESPO becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest received are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument.

For most of the loans that ESPO has, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest); and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the assets original interest rate.

Any gains or losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

k. Classification of Assets and Liabilities

(i) Assets are classified as current where the following circumstances apply:

- ESPO expects to realise the asset or intends to sell or consume it in its normal operating cycle,
- ESPO holds the asset primarily for the purpose of trading,
- ESPO expects to realise the asset within 12 months after the reporting period,
- The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle liabilities for at least 12 months after the reporting period.

All other assets are classified as long term.

(ii) Liabilities are classified as current where the following circumstances apply:

- ESPO expects to settle the liability in its normal operating cycle,
- ESPO holds the liability primarily for the purpose of trading,
- The liability is due for settlement within 12 months after the reporting period,
- ESPO does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as long term.

l. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by ESPO as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the organisation.

ESPO has no internally generated intangible assets. Any future expenditure on such assets will be capitalised where it can be measured reliably as attributable to the asset and will be restricted to the development phase.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the organisation’s goods or services.

1. Accounting Policies (continued)

l. Intangible Assets (continued)

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of the assets held by ESPO can be determined by reference to an active market. In practice no intangible assets held by ESPO meet this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. As asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains or losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

m. Inventories

Inventories are included in the Balance Sheet at the lower of cost or net realisable value. Where the inventory is deemed to be obsolete the item is then written off. The cost of inventories is assigned using the weighted average costing formula. ESPO inventories are held as Stores Stocks at Grove Park Enderby and Felixstowe for resale.

n. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where the lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Finance Leases

Property, plant and equipment held under finance leases is recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the leases inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Any initial direct costs of this organisation are added to the carrying amount of the asset. Premiums paid on entry into the lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the organisation at the end of the lease).

A prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1. Accounting Policies (continued)

n. Leases (continued)

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from the use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

o. Property, Plant and Equipment

Assets that have a physical substance and are held for use in the supply of goods or services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the purchase or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to ESPO and the costs of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The minimum purchase value for recognition as a non-current asset is £5,000. Purchases of plant and equipment below this value are charged to revenue in the year of purchase.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition for it to be capable of operating in the manner intended by management

ESPO does not capitalise borrowing costs incurred whilst assets are under construction. All ESPO Property, Plant and equipment has been purchased and were not subject to exchanges or donations.

Assets are carried in the Balance Sheet at fair value, determined as the amount that would be paid for the assets in its existing use. Where non property assets that have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

The warehouse and offices premises at Grove Park are included at existing use value and are revalued regularly to ensure that the carrying amount is not materially different from their existing use value at the year end. Chartered Surveyors in the Property Services Division of Leicestershire County Council’s Resources Department carry out the valuation. The current property value used in the 2017/18 accounts is based on a certificate issued by the Council's Head of Property Services Division as at 31 March 2018. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, except that gains may be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified they are accounted for by:

- Where there is a balance of revaluation gain for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount at the asset is written down against the premises line(s) in the Comprehensive Income and Expenditure Statement.

1. Accounting Policies (continued)

o. Property, Plant and equipment (continued)

The revaluation Reserve contains revaluation gains recognised since April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall

Where impairment is identified, they are accounted for by:

- Where there is a balance of revaluation gains for assets in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount is written down against the premises line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided on all Property, Plant and Equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made of assets without a determinable finite life (i.e. freehold land) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight line allocation over the useful life of the value of each class of asset in the balance sheet, as advised by a suitably qualified officer.

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on the assets and the depreciation that would have been chargeable based on their historical costs being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and non-current assets held for sale

No assets were identified as available for sale assets at the date of the balance sheet or in the prior accounting year.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal).

1. Accounting Policies (continued)

p. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the organisation a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, a court case that could eventually result in the making of a settlement or a payment of compensation.

Provisions may be charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that ESPO becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated in made), the provision is reversed and credited back to the relevant service.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives ESPO a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the organisation. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives ESPO a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the organisation.

q. Reserves

ESPO sets aside specific amounts as reserves for future policy purposes or to cover contingencies. The reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When Expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement.

Certain reserves are retained to manage the accounting processes for non-current assets, financial instruments, and employee benefits and do not represent resources for the organisation – these reserves are explained in the relevant policies.

r. VAT and Climate Change Levy (CCL)

VAT incorporated to the Comprehensive Income and Expenditure Account is limited to irrecoverable sums.

Income excludes any amounts related to CCL that, as a Deemed Utility, ESPO collects from its customers on behalf of HM Revenue and Customs and all CCL collected is payable to them.

2. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the organisation has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- ESPO's premises at Grove Park, Enderby have been subject to a revaluation as at 31 March 2018 by the Property Department of Leicestershire County Council (the organisation's servicing authority). The resulting increase in the fair value of £717,000 is reflected in the accounts.

3. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by ESPO about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.

However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the organisation's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if Actual Results differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent upon assumptions of business requirements and upkeep expenditure on individual assets.	If the useful lives of assets reduces depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for the premises would increase by £2,000 for every year that useful lives had to be reduced.
Debtors	At 31 March 2018, ESPO had a balance of sales ledger debtors of £6,725k. A review of overdue debts has identified that impairment for doubtful debts of £77,122 was appropriate in relation to amounts due from commercial organisations. However, it is not certain that such an allowance will be sufficient.	If an additional 1% of customers become insolvent, the amount of the impairment for doubtful debts would require an additional £67,250 to be set aside as an allowance.
Stocks	Stocks of catalogue products are held in anticipation of sales to customers. The catalogue is re-issued annually and products may be added or deleted. Stocks held at 31 March 2018 in excess of one year sales may not be included in subsequent catalogues. The write down in value of stocks held in excess on one year amounted to £142,880.	If 10% of the products for which excess stocks have been identified are included in the catalogue for 2017/18, the resulting reduction in stock write down would be £14,288.

3. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty (continued)

Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An independent firm of consulting actuaries is engaged to provide the organisation with expert advice about the assumptions to be applied, although ultimate responsibility for forming these assumptions remains with the organisation. The carrying value of the Pension Liability as at 31 March 2018 is £18.7M	The effects on the net liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £5.3M. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by between £1.28M and £2.13M. However, the assumptions interact in complex ways. During 2017/18, the organisation's actuaries advised that the net pension liability had decreased by £0.42M as a result of experience and decreased by £0.94M attributable to updating of the assumptions.
Accruals	There is an uncertainty to the amount of reserves created as some of the amounts are based on estimates.	The position is regularly reviewed.

4. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue on 8 June 2018. Events taking place after this date are not reflected in the accounts or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the accounts and notes have been adjusted in all material respects to reflect the impact of this information. There are no post balance sheet events.

5. Adjustments between the Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the ESPO in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the organisation to meet future capital and revenue expenditure.

5 Adjustments between the Accounting Basis and Funding Basis under Regulations (continued)

2017/18	**Usable Reserves**			
	General Fund Balance	Earmarked Repairs and Renewals Reserve	**Total Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement;				
Charges for depreciation and impairment of non current assets	355	0	355	(355)
Amortisation of intangible assets	83	0	83	(83)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	31	0	31	(31)
Gain/loss on disposal of non current assets	23	0	23	(23)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for financing of capital investment (Grove Park)	(500)	0	(500)	500
Statutory provision for financing leased capital investment	(55)	0	(55)	55
Use of General Fund to finance new capital expenditure	0	0	0	0
Adjustments involving the Earmarked Reserves:				
Use of reserves to finance new capital expenditure	0	(101)	(101)	101
Adjustments involving the Pension Reserve				
Reversal of items relating to retirement benefits debited or credited to the comprehensive Income and Expenditure Statement	1,646	0	1,646	(1,646)
Adjustment involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(10)	0	(10)	10
Total Adjustments	**1,573**	**(101)**	**1,472**	**(1,472)**

5. Adjustments between the Accounting Basis and Funding Basis under Regulations (continued)

2016/17 comparative figures	**Usable Reserves**			
	General Fund Balance	Earmarked Repairs and Renewals Reserve	**Total Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	328	0	328	(328)
Amortisation of intangible assets	79	0	79	(79)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	226	0	226	(226)
Gain/loss on disposal of non current assets	(74)	0	(74)	74
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for financing of capital investment (Grove Park)	(500)	0	(500)	500
Statutory provision for financing leased capital investment	(111)	0	(111)	111
Use of General Fund to finance new capital expenditure	(17)	0	(17)	17
Adjustments involving the Earmarked Reserves:				
Use of reserves to finance new capital expenditure	0	(331)	(331)	331
Adjustments involving the Pension Reserve Reversal of items relating to retirement benefits debited or credited to the comprehensive Income and Expenditure Statement	753	0	753	(753)
Adjustment involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(5)	0	(5)	5
Total Adjustments	**679**	**(331)**	**348**	**(348)**

6. Transfers (from) / to Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

	Balance at 1 April 2017	Transfers in 2017/18	Capital Transfers out 2017/18	Revenue Transfers out 2017/18	Balance at 31 March 2018
	£000	£000	£000	£000	£000
Earmarked Projects Reserve	0	2,500	0	0	2,500
Earmarked Repairs and Renewals Reserve	1,638	68	(94)	(109)	1,503
Earmarked Property Maintenance Reserve	2,651	413	(7)	0	3,057
Strategic Review Implementation	0	0	0	0	0
Warehouse Automation	2,500	0	0	(2,500)	0
Total	**6,789**	**2,981**	**(101)**	**(2,609)**	**7,060**

2016/17 Comparative Figures:

	Balance at 1 April 2016	Transfers in 2016/17	Capital Transfers out 2016/17	Revenue Transfers out 2016/17	Balance at 31 March 2017
	£000	£000	£000	£000	£000
Earmarked Projects Reserve	(29)	0	0	29	0
Earmarked Repairs and Renewals Reserve	3,202	199	(330)	(1,433)	1,638
Earmarked Property Maintenance Reserve	2,241	411	0	(1)	2,651
Strategic Review Implementation	400	0	0	(400)	0
Warehouse Automation	0	2,500	0	0	2,500
Total	**5,814**	**3,110**	**(330)**	**(1,805)**	**6,789**

7. Other Operating Expenditure

2016/17		2017/18
£000		£000
2,800	Dividend payable to member authorities	3,126
(74)	(Gains) / Losses on disposal of non current assets	23
2,726	**Total**	3,149

8. Financing and Investment Income and Expenditure

2016/17		2017/18
£000		£000
325	Interest payable and similar charges	295
(37)	Interest receivable and other similar income	(31)
425	Pension interest cost and expected return on pension assets	493
713	**Total**	757

9. Property, Plant and Equipment

Movements in Balances

Movements in 2017/18

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
Cost or Valuation	£000	£000	£000
At 1 April 2017	12,060	3,323	15,383
Additions	0	101	101
Revaluation Increase recognised in the Revaluation Reserve	5	0	5
Revaluation Increase recognised in the Capital Adjustment Account	591	0	591
Derecognition – disposals	0	(128)	(128)
At 31 March 2018	**12,656**	**3,296**	**15,952**
Accumulated Depreciation and Impairment			
At 1 April 2017	0	2,594	2,594
Depreciation charge	121	234	355
Impairment recognised in the Capital Adjustment Account	(121)	0	(121)
Derecognition – disposals	0	(75)	(75)
At 31 March 2018	**0**	**2,753**	**2,753**
Net Book Value:			
At 31 March 2018	**12,656**	**543**	**13,199**

9. Property, Plant and Equipment (continued)

Comparative Movements in 2016/17:

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
Cost or Valuation:	£000	£000	£000
At 1 April 2016	11,000	3,655	14,655
Additions	0	301	301
Revaluation Increase recognised in the Revaluation Reserve	15	0	15
Revaluation Increase recognised in the Capital Adjustment Account	1,045	0	1,045
Derecognition – disposals	0	(633)	(633)
At 31 March 2017	**12,060**	**3,323**	**15,383**
Accumulated Depreciation and Impairment:			
At 1 April 2016	0	2,853	2,853
Depreciation charge	106	222	328
Impairment losses recognised in the Revaluation Reserve	(106)	0	(106)
Derecognition – disposals	0	(481)	(481)
At 31 March 2017	**0**	**2,594**	**2,594**
Net Book Value:			
At 31 March 2017	**12,060**	**729**	**12,789**

Depreciation:

The following useful lives and depreciation rates have been used in the calculation of depreciation:

a. Land and Buildings – 70 years
b. Vehicles, Plant and Equipment – 4 to 10 years

Capital Commitments:

At 31 March 2018, there were no contractual commitments in 2018/19 for the acquisition of tangible or intangible assets.

9. Property, Plant and Equipment (continued)

Revaluations:

ESPO undertakes an annual revaluation programme to ensure that the value of the premises at Grove Park, Enderby is correctly measured at existing use value. The valuation was carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
	£000	£000	£000
Historical cost	0	3,296	3,296
Valued at existing use value at 31 March 2018	12,656	0	12,656
Total Cost or Valuation	**12,656**	**3,296**	**15,952**

10. Intangible Assets

ESPO accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets only include purchased licences.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the organisation. The useful life assigned to all major software used by ESPO is 5 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £83,000 charged to revenue in 2017/18 was charged as a service overhead cost under the heading "Equipment" in the Comprehensive Income and Expenditure Statement.

The movement on Intangible Asset balances during the year is as follows:

	31/03/2017 Purchased Software £000	31/03/2018 Purchased Software £000
Balance at start of year:		
• Gross carrying amount	694	740
• Accumulated amortisation	(556)	(635)
Net carrying amount at start of year	138	105
Additions – Purchases	46	0
Amortisation for the year	(79)	(83)
Net carrying amount at end of year	105	22
Comprising:		
• Gross carrying amount	740	740
• Accumulated amortisation	(635)	(718)
	105	22

11. Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

	Long-Term		Current	
	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£000	£000	£000	£000
Loans and Receivables: Financial assets carried at contract amounts including Cash and Cash Equivalents	0	0	18,532	20,014
Total Receivables	0	0	18,532	20,014
Borrowings: Financial Liabilities at amortised cost	6,500	6,000	720	656
Total Borrowings	6,500	6,000	720	656
Other Long Term Liabilities: Finance Lease liabilities	0	0	0	0
Total other long term liabilities	0	0	0	0
Other Short Term financial Liabilities: Financial liabilities carried at contract amounts	0	0	11,512	12,268
Total Short term Liabilities	0	0	11,512	12,268

11. Financial Instruments (continued)

Income, Expense, Gains and Losses:

The gains and losses recognised in the Consolidated Income and Expenditure Account in relation to financial instruments are made up as follows:

	2016/17		2017/18	
	Financial Liabilities	Financial Assets	Financial Liabilities	Financial Assets
	Measured at amortised cost	Loans and Receivables	Measured at amortised cost	Loans and Receivables
	£000	£000	£000	£000
Interest expense payable on long term loan	(315)	0	(292)	0
Bank interest payable on leased assets loans	(10)	0	(3)	0
Bank and short term investment interest receivable	0	37	0	31
Net (loss)/gain for the year	(325)	37	(295)	31

Fair Values of assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long term creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rate at 31 March 2018 of 3.12% for loans from Leicestershire County Council based on equivalent rates for loans from the PWLB and a rate of 7.6% for equipment loans based on equivalent commercial rates.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2017		31 March 2018	
	Carry Amount	Fair Value	Carry Amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities – Premises loan from Leicestershire County Council	7,121	8,372	6,612	7,514
Other Long-term creditors	106	106	65	65

Where the fair value is less than the carrying amount, this arises because the organisation's borrowings include a number of fixed rate loans where the interest payable is lower than the rates available for similar loans at the balance sheet date.

Loans and Receivables:

The fair value of trade and other receivables is taken to be the invoiced or billed amount which is the same as the carrying amount on the Balance Sheet.

12. Inventories

ESPO holds Stores stocks of products for resale to customers. The value of these stocks is as follows:

	2016/17	2017/18
	£000	£000
Balance at start of year	4,534	5,043
Purchases	30,134	30,063
Recognised as an expense in the year	(29,433)	(29,776)
Written off balances	(192)	(143)
Balance at year end	5,043	5,187

13. Short Term Debtors

The following represents an analysis of the amounts due to ESPO:

31 March 2017		31 March 2018
£000		£000
	Current Debtors	
1,110	Reserved Debtors	1,345
5,780	Sundry Debtors	6,725
(70)	Less provision for bad debts	(77)
6,820	**Total**	**7,993**
	Analysis of Bad debts Provision	
(30)	Opening Balance as at 1 April	(70)
51	CIES Charge for the Year	(26)
(91)	Less Bad Debts adjustment	19
(70)	Closing Balance as at 31 March	(77)

14. Cash and Cash Equivalents

31 March 2017		31 March 2018
£000		£000
0	Cash held by ESPO	0
167	Bank current accounts	200
11,545	Bank short-term deposit account	11,821
11,712	**Total Cash and Cash Equivalents**	**12,021**

15. Short-Term Creditors and Other Current Liabilities

31 March 2017		31 March 2018
£000		£000
	Supplier balances:	
159	• Other local authorities	273
5,997	• Other entities and individuals:	5,351
2,296	Reserved creditors and suspense accounts	3,248
634	Taxes and duties	451
2,800	Member authority dividends	3,126
260	Payroll deductions	270
12,146	**Total**	12,719

16. Total usable Reserves

Movements in ESPO's usable reserves are detailed in the Movement in Reserves Statement and in Notes 5 and 6 above.

ESPO reserves have been established to meet operating deficits and to finance major one-off expenditure and replacement of assets. The Usable Reserves held by ESPO at 31 March 2018 are as follows:

(i) General Fund:

The reserve provides working capital to finance ESPO's trading activities. Standard practice is that, on acceptance of the annual accounts by member authorities, the annual surplus is allocated to this account after making deductions of any amounts transferred to Earmarked Repairs and Renewals and Property Maintenance Reserves and of amounts payable to member authorities as annual dividend.

Member authorities' dividend is normally calculated as 80% of the annual surplus after transfers to other reserves. The retained balance is not available for distribution to member authorities and is held to offset any unbudgeted deficits. The maximum value of the general fund determined by Members was set at 5% of turnover.

(ii) Repairs and Renewals:

This reserve provides funding for the replacement purchases of vehicles and other capital equipment and equalises the effect of annual spending variations on annual surpluses by means of an annual charge to revenue calculated on the expected asset life and replacement cost.

(iii) Property Maintenance:

This reserve provides funding for major building repairs, for which ESPO as beneficial owner is responsible and equalises the effect of annual spending variations on annual surpluses by means of an annual charge to revenue.

(iv) Earmarked Projects:

Amounts authorised by member authorities to be allocated from annual surpluses to provide for the funding of major capital expenditure and development projects.

17. Unusable Reserves

31 March 2017		31 March 2018
£000		£000
128	Revaluation Reserve	134
5,963	Capital Adjustment Account	6,839
(103)	Accumulated Absences Account	(93)
(18,401)	Pensions Reserve	(18,697)
(12,413)	**Total**	(11,817)

17. Unusable Reserves (continued)

Revaluation Reserve

The Revaluation Reserve contains the gains made by ESPO arising from increases in the value of its property. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- The asset is disposed of and the gains realised.

The Reserve contains only gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2016/17	2017/18
	£000	£000
Balance at 1 April	113	128
Difference between the fair value depreciation and historical cost depreciation:	0	0
Revaluation gains on Property, Plant and Equipment	15	5
Balance at 31 March	128	133

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provision. The account is debited with the cost of acquisitions, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The accrual is credited with the amounts set aside by the organisation as finance for the costs of acquisition, construction and enhancement.

The Account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

17. Unusable Reserves (continued)

2016/17	Capital Adjustment Account	2017/18
£000		£000
4,412	**Balance at 1 April**	5,963
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(328)	• Charges for depreciation of non current assets	(355)
1,151	• Net Revaluation gains and (Impairment losses) on Property, Plant and Equipment	712
(79)	• Amortisation of intangible assets	(83)
0	• Revenue expenditure funded from capital under statute	0
(152)	• Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(54)
592		220
	Net written out of the cost of non-current assets consumed in the year	
	Capital financing applied in the year:	
0	• Use of Major Project Earmarked Reserve to finance new capital expenditure	0
331	• Use of the Repairs and Renewals Earmarked Reserve to finance new capital expenditure	101
611	• Statutory provision for the financing of capital investment charged against the General Fund	555
17	• Capital Expenditure charged against the General Fund	0
959		656
5,963	**Balance at 31 March**	6,839

17. Unusable Reserves (continued)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March.

Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2016/17 £000		2017/18 £000	
(108)	**Balance at 1 April**		(103)
108	Settlement or cancellation of accrual made at the end of the preceding year	103	
(103)	Amounts accrued at the end of the current year	(93)	
5	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		10
(103)	**Balance at 31 March**		(93)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in accordance with statutory provisions. The organisation accounts for post – employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflations, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the organisation makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the pension reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the organisation has set aside to meet them. The statutory arrangements will ensure that the funding will have been set aside by the time the benefits come to be paid.

2016/17 £000		2017/18 £000	
(11,987)	**Balance at 1 April**		(18,401)
(5,661)	Remeasurements of the net defined benefit liability		1,350
(2,726)	Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the CIES		(3,238)
1,523	Employer's pension contributions and direct payments to pensions payable in the year		1,592
(18,401)	**Balance at 31 March**		(18,697)

18. Reconciliation of the Surplus on the Comprehensive Income and Expenditure Statement to Revenue Activities Cash flow

2016-17		2017-18	
£000	**Non cash Transactions:**	£000	
(407)	Depreciation of non-current assets	(438)	
5	Movement on short-term accumulating compensated absences adjustments	10	
(753)	Movement in Pension Liability	(1,646)	
(1,155)			(2,074)
	Revenue items on an accruals basis:		
510	Increase in stocks	144	
(353)	(Decrease) / increase in debtors	1,173	
1,631	Decrease / (increase) in creditors	(351)	
(173)	(Increase) / decrease in tax creditor	183	
(2,520)	(Increase) in other current liabilities	(3,217)	
(905)			(2,068)
(2,060)	**Total adjustment to net surplus on the provision of services for non-cash movements**		(4,142)
	Adjustments for items included in the net surplus on the provision of services that are Investing and financing activities		
(288)	Interest payable (net)	(264)	
74	Surplus / (loss) on disposal of non-current assets	(22)	
(214)		(286)	

19. Cash Flow Statement – Adjustments to Operating Activities

The cash flows for operating activities include the following items:

2016/17		2017/18
£000		£000
(37)	Interest Received	(31)
325	Interest paid	295
2,358	Dividends paid	2,800
2,646	**Net cash flows used in operating activities**	3,064

20. Cash Flow Statement – Investing Activities

2016/17		2017/18
£000		£000
347	Purchase of Property, Plant and Equipment and intangible assets	102
(225)	Proceeds from the sale of property, plant and equipment and intangible assets.	(31)
122	**Net cash flows used in investing activities**	71

21. Cash Flow Statement – Financing Activities

2016/17		2017/18
£000		£000
111	Cash payments for the reduction of outstanding finance lease liabilities	55
509	Repayment of short and long-term borrowing	509
620	**Net cash flows used in financing activities**	564

22. Officers Remuneration

a) The following table sets out the remuneration disclosures for senior officers whose salary is more than 50,000 per year who have the power to direct or control the major activities of the organisation:

Post holder Information (Post Title)	Salary (inc fees and allowances)	Compensation Payments	Benefits in Kind (e.g. Car Allowances)	Total Remuneration excluding pension contributions	Employers Pension contributions	Total Remuneration including Employers pension contributions
2017/18	£	£	£	£	£	£
Director	72,831	0	3,639	76,470	16,970	93,440
Deputy Director (& Chief Commercial officer)	99,207	0	0	99,207	24,268	123,475
Assistant Director (Finance & Governance)	78,879	0	(97)	78,782	18,379	97,161
Assistant Director (Operations)	79,982	0	4,736	84,718	18,636	103,354
	330,899	0	8,278	339,177	78,253	417,430

NOTE: The Director resigned and officially left on the 22nd October 2017, the Deputy Director (& Chief Commercial Officer) temporarily took over and was permanently promoted to the position of Director on the 21st December 2018.

22. Officers Remuneration continued

2016/17 Comparatives	Salary (inc fees and allowances	Compensation Payments	Benefits in Kind (e.g. Car Allowances)	Total remuneration excluding pension contributions	Employers Pension Contributions	Total remuneration including Employers Pension contributions
	£	£	£	£	£	£
Director	128,966	0	5,953	134,919	28,759	163,678
Deputy Director (& Chief Commercial Officer)	87,504	0	0	87,504	19,513	107,017
Assistant Director (Finance & Governance)	78,098	0	524	78,622	17,416	96,038
Assistant Director (Operations)	78,098	0	4,072	82,170	17,416	99,586
	372,666	0	10,549	383,215	83,104	466,319

There were no payments for bonuses, expense allowances or other payments.

b) The organisation's other employees whose remuneration, taxable expenses and severance (if applicable), was £50,000 or more are detailed below. This information does not include employer's pension contributions.

Remuneration Band	2016/17	2017/18	2016/17	2017/18
	Including Severance		**Excluding Severance**	
£50,000 - £54,999	0	0	4	4
£55,000 - £59,999	0	0	2	3
£60,000 - £64,999	0	0	1	1
Total	**0**	**0**	**7**	**8**

22. Officers Remuneration (continued)

EXIT PACKAGES

The number of exit packages with the total cost per band and total cost of compulsory and other redundancies are set out in the table below:

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit packages by Cost Band		Total Cost of Packages in Each Cost Band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17 £000	2017/18 £000
£0 - £20,000	0	2	2	2	2	4	22	40
Total	**0**	**2**	**2**	**2**	**2**	**4**	**22**	**40**

23. External Audit Costs

Eastern Shires Purchasing Organisation incurred the following audit fees:

	RESTATED 2016/17 £000	2017/18 £000
Fees payable to external auditors with regard to external audit services. The external auditors are PricewaterhouseCoopers LLP.	34.7	31.5

24. Related Parties

ESPO is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the organisation or to be controlled or influenced by ESPO. Disclosure of these transactions allows readers to assess the extent to which ESPO might be constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with ESPO.

Members

Members of the Management Committee have a direct control over ESPO financial and operating policies. No payments are made by ESPO to any members of the Management Committee. During 2017/18 no members had an interest in any work or services commissioned by ESPO. Contracts were entered into in full compliance with the organisation's standing orders.

Officers

During 2017/18 no officers declared a pecuniary interest in any contractual or financial transactions.

24. Related Parties (continued)

Other Public bodies [subject to common control by central government]

Debtors:

ESPO provides goods and services to all member authorities and as a consequence amounts due from member authorities including Local Education Authorities (LEA) schools for such transactions amounted to £2,258k as at 31 March 2018 (£1,754k as at 31 March 2017) and are included in 'Sundry Debtors' as detailed in note 13 to the Statement of Accounts. The amounts owing from each member authority are as follows:

Analysis of Sundry Debtor Balances	31 March 2017	31 March 2018
	£000	£000
Member Authorities:		
Cambridgeshire County Council	214	307
Leicestershire County Council	294	276
Lincolnshire County Council	525	580
Norfolk County Council	370	678
Peterborough City Council	117	113
Warwickshire County Council	234	304
Total	1,754	2,258

Sales:

The value of sales to member authorities, including LEA schools, for services provided by ESPO are included within the value of Gross Income in the Comprehensive Income and Expenditure Statement and amounted to £30,190k for 2017/18 (£31,094k for 2016/17). The following is a breakdown by individual member authority:

Analysis of sales to member authorities.	2016/17	2017/18
	£000	£000
Member Authorities:		
Cambridgeshire County Council	5,396	5,407
Leicestershire County Council	5,181	4,756
Lincolnshire County Council	6,140	5,613
Norfolk County Council	7,657	7,616
Peterborough City Council	1,834	2,106
Warwickshire County Council	4,886	4,692
	31,094	30,190

Creditors:

Amount due to member authorities for services they provided to ESPO amounted to £273k as at 31 March 2018 (£159k at 31 March 2017) and are included within the value of 'Supplier Account Balances' as detailed in the Short-Term Creditors note to this Statement of Accounts.

Analysis of Supplier Account Balances.	31 March 2017	31 March 2018
	£000	£000
Member Authorities:		
Leicestershire County Council	159	273
Warwickshire County Council	0	0
	159	273

24. Related Parties (continued)

Purchases:

The value of purchases from member authorities for services they provided to ESPO are included within the value of Gross Expenditure in the Comprehensive Income and Expenditure Statement and amounted to £2,077k for 2017/18 (£1,875k for 2016/17). The following is a breakdown by individual member authority:

Analysis of purchases from member authorities.	2016/17	2017/18
	£000	£000
Member Authorities:		
Cambridgeshire County Council	26	0
Leicestershire County Council	1,757	2,077
Warwickshire County Council	23	0
Peterborough City Council	4	0
Norfolk County Council	65	0
	1,875	2,077

25. Capital Expenditure and Capital Financing

ESPO finances the purchase of routine replacement non-current and intangible assets from the Repairs and Renewals Reserve or the Property Maintenance Reserve.

Purchases of additional non-current and intangible assets may be financed from Earmarked Reserves when these form part of development projects approved by the Management Committee. Other purchases of additional non-current and intangible assets are financed from revenue.

Financing of capital expenditure on non current and intangible assets:

2016/17			**2017/18**	
Intangibles	Vehicles, plant and Equipment		Intangibles	Vehicles, plant and Equipment
£'000	£'000		£'000	£'000
0	17	Financed from Revenue	0	0
46	57	Financed from Earmarked Reserves	0	0
0	227	Financed from Vehicle and Equipment Reserves	0	94
0	0	Financed from Maintenance Reserves	0	7
46	301		0	101

Capital expenditure commitments:	31 March, 2017	31 March, 2018
	£000	£000
The organisation had no commitments during 2017/18 for the purchase of non-current assets in the following financial year, 2018/19.	0	0

26. Leases

Finance Leases

The organisation has acquired its motor car fleet and selected office copiers under finance leases and operating leases. Copiers below the minimum capital purchase value of £5,000 continue to be treated as operating leases.

The assets acquired under these finance leases are carried as Property, Plant and Equipment in the Balance Sheet at the following amounts:

31 March 2017		31 March 2018
£000		£000
61	Vehicles, Plant and Equipment	5

The organisation is committed to making payments under these finance leases comprising of the long-term liability for the interest in the property acquired by ESPO and finance costs that will be payable by ESPO in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2017	31 March 2018
	£000	£000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	0	0
• Non current	40	0
Finance costs payable in future years	0	0
Minimum lease payments	40	0

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£000	£000	£000	£000
Not later than one year	40	0	40	0
Later than one year and not later than five years	0	0	0	0
	40	0	40	0

26. Leases (continued)

Operating Leases

ESPO has acquired office copiers and vending machines by entering into operating leases, with a typical life of 5 years.

The future minimum lease payments due under non-cancellable leases in future years are:

	2016/17	2017/18
	£000	£000
Not later than one year	75	71
Later than one year and not later than 5 years	106	65
Minimum lease payments	181	136

The expenditure charged to the Equipments line in the Comprehensive Income and Expenditure Statement during the year in relation to these operating leases was:

	2016/17	2017/18
	£000	£000
Minimum lease payments	181	136

27. Buildings Revaluation

During this financial year ESPO has recognised a Revaluation Gain of £0.7M in relation to its premises at Grove Park, Enderby. The premises have been valued on an existing use value basis of £12.66M by the Property Services Department of Leicestershire County Council at 31st March 2018. The organisation continues to utilise the premises as its operational headquarters, warehouse and distribution centre.

28. Pensions

As part of the terms and conditions of employment of its employees, the organisation makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the organisation has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The organisation participates in the Local Government pension scheme for employees, administered locally by the Servicing Authority, Leicestershire County Council. This is a funded defined benefit final salary scheme, meaning that the organisation and its employees pay contribution into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The pension scheme is operated under regulatory framework for the LGPS and the governance of the scheme is the responsibility of the pension fund management board Leicestershire County Council. The policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the board.

The principle risks to the organisation of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute.

28. Pensions (continued)

The latest fund actuarial valuation at 31 March 2016 identified that the funds assets were sufficient to meet approximately 76% of the liabilities accrued up to that date.

The pension costs that are charged to ESPO's accounts in respect of these employees are equal to the contributions paid to the funded pension scheme. In addition ESPO has made arrangements for the payment of added-years pensions to certain retired employees outside the provisions of the scheme, on an unfunded basis.

In 2017/18 ESPO paid an employer's contribution of £1,545k (2016/17 - £1,511k), into the Pension Fund, representing an average 20.2% of total pensionable pay.

In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2017/18 these amounted to £47k (2016/17 - £12k), representing 0.6% of pensionable pay.

The IAS 19 balance sheet position as at 31 March 2018 is £18.7M (2016/17 – £18.4M).

28. Pensions (continued)

The following transactions have been made in the Comprehensive Income and Expenditure Statements and the Movement in Reserves Statement during the year:

2016/17		2017/18
£000		£000
	Comprehensive Income and Expenditure Statement Cost of Services	
	Service cost comprising:	
1,851	Current service cost	2,719
0	Past service costs	26
0	Settlements and Curtailments	0
	Financing and Investment Income and Expenditure:	
425	Net Interest expense	493
2,276	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	3,238
	Other Post Employment Benefit Charged to the Comprehensive Income and expenditure Statement	
	Remeasurement of the net defined benefit liability compromising:	
(3,204)	Return on planned assets (excluding the amount included in the net interest expense)	(417)
0	Actuarial gains/(losses) arising from changes in demographic assumptions	0
8,865	Actuarial gains/losses arising from changes in financial assumptions	(933)
0	Other	0
5,661	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	(1,350)
	Movement in Reserves Statement	
753	Reversal of net charges made to the Surplus or Deficit for the Provision of Services of post-employment benefits in accordance with the code	1,646
	Actual amount charged against the balance for Pensions in the year	
1,511	Employers contributions payable to the scheme	1,584
0	Unfunded benefits	0
1,511	Total amount charged against the Fund Balance for Pensions in the year	1,584

The cumulative amount of actuarial gains and losses recognised in the Other Comprehensive Income and Expenditure in the actuarial gains or losses on pension assets and liabilities line at 31 March 2018 was a loss of £18.7M (2016/17 - £18.4M).

28. Pensions (continued)

Pension Assets and Liabilities in Relation to Post-employment Benefits

The present value of the liabilities (defined benefit obligation) of the organisation as at 31 March is as follows:

31 March 2017		31 March 2018
£000		£000
(27,948)	Balance at 1 April	(39,731)
(1,851)	Current service cost	(2,745)
(1,011)	Interest cost	(1,068)
(456)	Contributions by scheme participants	(446)
	Remeasurement (gains) and losses:	
0	▪ Changes in demographic assumptions	0
(8,853)	▪ Changes in financial assumptions	941
0	▪ Other	0
	Past service costs:	
0	▪ (Losses)/Gains on curtailments	0
388	▪ Benefits paid	431
0	▪ Liabilities extinguished on settlements	0
(39,731)	Balance as 31 March	(42,618)

The fair value of the assets of the organisation as at 31 March is as follows:

31 March 2017		31 March 2018
£000		£000
15,961	Balance as 1 April	21,330
586	Interest Income	575
	Remeasurement gain/(loss):	
3,204	▪ Return on plan assets	417
1,511	Employer contributions	1,584
456	Contributions by scheme participants	446
(388)	Benefits paid	(431)
0	Contributions in respect of unfunded benefits	0
0	(Losses) / Gains on settlements	0
21,330	Balance as 31 March	23,921

The expected return on scheme assets is determined by considering the expected returns available on assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

28. Pensions (continued)

The Local Government Pension Scheme assets comprised:

31 March 2017			31 March 2018	
£000	% of total assets		£000	% of total assets
		Equity Securities:		
551	3%	▪ Other	580	2%
		Debt Securities:		
1,837	9%	▪ UK Government	1,996	8%
234	1%	▪ Other	218	2%
805	4%	Private Equity	851	4%
		Real estate:		
1,714	8%	▪ UK Property	2,101	9%
		Investment Funds and Unit Trusts		
10,216	48%	▪ Equities	11,269	47%
1,913	9%	▪ Bonds	2,746	11%
716	3%	▪ Hedge Funds	834	3%
503	2%	▪ Commodities	560	2%
955	4%	▪ Infrastructure	1,132	5%
534	3%	▪ Other	708	3%
		Derivatives		
(10)	0%	▪ Foreign Exchange	(70)	0%
1,362	6%	Cash and Cash equivalents	995	4%
21,330	100%		23,921	100%

The scheme history of the pension fund is as follows:

	2016/17 £000	2017/18 £000
Present Value of liabilities	(39,731)	(42,618)
Fair value of assets	21,330	23,921
Deficit	(18,401)	(18,697)

The liability shows the underlying commitment that the organisation has in the long run to pay post- employment - retirement benefits. This total liability of £18.7M has a substantial impact on the net worth of the organisation as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit will result in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the actuary.

28. Pensions (continued)

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The organisation's Pension Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the Pension Fund as at 31st March 2016.

The principle assumptions used by the actuary have been:

31 March 2017		31 March 2018
	Mortality assumptions (in years):	
	Longevity at 65 for current pensioners:	
22.1	▪ Men	22.1
24.3	▪ Women	24.3
	Longevity at 65 for current pensioners:	
23.8	▪ Men	23.8
26.2	▪ Women	26.2
2.4%	Rates of inflation	2.4%
3.4%	Rates of increases in salaries	3.4%
2.4%	Rates of increase in pensions	2.4%
2.6%	Rates for discounting scheme liabilities	2.7%
	Proportion of employees opting to commute part of their annual pension to a retirement lump sum:	
50%	▪ Pre April 2008 Service	50%
75%	▪ Post April 2008 Service	75%

The estimation of the defined benefit obligation is sensitive to actual assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumption occurring at the year end of the reporting period and assumes for each change that the assumption analysed changes while all other assumption remain constant. The assumption in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, on an actuarial basis, using the projected credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in previous years.

Sensitivities regarding the principle assumptions used to measure the scheme liabilities as at 31 March 2018.

	Approximate % Increase in Employer Liability	Approximate Monetary Amount
		£000
0.5% decrease in Real Discount Rate	12%	5,318
0.5% increase in the Salary Increase Rate	3%	1,221
0.5% increase in the Pension Increase Rate	9%	3,988

The impact of a change, either from increase to decrease or vice versa, would be as above but with the values being reversed.

28. Pensions (continued)

Pension Fund Risk Management Strategy

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore the aim of the investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows.

These investment risks are managed as part of the overall Pension Fund Risk Management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Management Board and is monitored annually or more frequently if required.

Impact on the organisation's Cash Flows

The objectives of the scheme are to keep employer's contributions at a constant a rate as possible. The organisation has agreed a strategy with the scheme's actuary to achieve a funding of 100% over the next 20 years. Funding levels are monitored on an annual basis. The last triennial valuation was completed on 31 March 2016. Increases in employer's contribution rate that are required within the valuation will be phased in over a three year period commencing 1 April 2017. The contributions payable by ESPO will be 23.3% in 2017/18, 24.3% in 2018/19 and 25.3% in 2019/20.

The scheme will need to take account of the national changes to the scheme under the Public pensions Services Act 2013, The Local Government Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for the other main existing public service pension schemes in England and Wales). The act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The organisation anticipated to pay £1.6M expected contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 22.1 years.

29. Contingent Liabilities

There are no contingent liabilities.

30. Nature and Extent of Risks Arising from Financial Instruments

The organisation's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amount due to ESPO.
- Liquidity risk – the possibility that ESPO might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial losses might arise from changes in such measures as interest rates.

The organisation only generates income through its commercial activities therefore risk management focuses on the unpredictability of customer demand and on maintaining its reputation for service quality and value for money. The effective risk management of financial instruments is vital to ensure the necessary funding and resources are available to support these activities.

30. Nature and Extent of Risks Arising from Financial Instruments (continued)

Risk management is carried out by the Leadership Team under policies approved by the ESPO Management Committee and in compliance with the financial regulations and policies of Leicestershire County Council, the organisation's servicing authority.

Credit Risk

Credit risks arise from deposits with banks and from credit exposures to the organisation's customers. Deposits are made with banks that are approved by the servicing authority and that meet Leicestershire County Council rating requirements.

The maximum exposure to credit risk in relation to ESPO's investments in banks and building societies is 100% of its investments, but this cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principle sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of ESPO's deposits but there was no evidence at 31 March 2018 that this was likely to crystallise.

Customers are assessed, taking into account their legal status, past experience and other factors with individual credit limits being set for catalogue customers in accordance with internal ratings. Due to the nature of the transactions, limits are not enforced on energy billing and on turnover rebates due from contracted suppliers. As at the Balance Sheet date no customers' credit terms have been renegotiated that would otherwise be past due.

The following analysis summarises the organisation's potential maximum exposure to credit risk, based on default and un-collectability over the past 6 years, adjusted to reflect current market conditions.

	Amount at 31 March 2018 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2018 %	Estimated maximum exposure to default and un-collectability 31 March 2018 £000	Estimated maximum exposure at 31 March 2017 £000
Bank Deposits	200				
Investments (see Note 14)	11,821				
Customers	6,603	0.76	0.96	63.1	47.1
				63.1	47.1

Where applicable, no credit limits were exceeded during the reporting period and ESPO does not expect any losses from non-performance in relation to bank deposits. ESPO's standard terms of trade are 30 days.

A total of £1,779k of the balance of £6,725k was overdue at 31 March 2018 and can be analysed as follows:

Aged Analysis of financial assets that are past due as at the reporting date but not impaired (Overdue debtors):

	31 March 2017	31 March 2018
	£000	£000
Less than one month overdue	1,047	1,066
Between one and three months	208	411
More than three months overdue	40	302
	1,295	1,779

30. Nature and Extent of Risks Arising from Financial Instruments (continued)

Impairment of financial assets:

A bad debt provision is established following a review of individual customers' debts as at the balance sheet date and a proportionate value of impairment is determined according to the individual circumstances including customers' legal status. Debts are usually considered 100% impaired when customers have entered into liquidation. A summary of the provision is included within Note 13 – Short Term Debtors.

Liquidity Risk

In order to support seasonal trade variations ESPO has an informal treasury arrangement with Leicestershire County Council (its servicing authority) that provides ready access to liquid funds for short-term borrowing at market interest rates.

ESPO moved to new premises at Grove Park, Enderby, Leicestershire in February 2006. This property is owned by Leicestershire County Council on behalf of the organisation as a consequence of ESPO's status which does not permit the legal ownership of assets.

Leicestershire County Council financed the purchase with long term borrowing from the Public Works Loan Board which ESPO, as the beneficial owner of the property, has committed to recompense to the council in instalments that equal their repayments to the PWLB for the duration of the loan. The loan is subject to interest rates charged between 4.4% to 4.65% pa.

Maturity analysis of financial liabilities:

	Total Long-Term Outstanding at 31 March 2017	Total Long -Term Outstanding at 31 March 2018
Lender:	£000	£000
• Leicestershire County Council	6,500	6,000
Analysis of Maturity of this loan:		
• Between one and two years	500	500
• Between two and five years	1,500	1,500
• Between five and ten years	2,500	2,500
• In ten years or more	2,000	1,500

Market Risks:

Interest Rate Risk:
ESPO is exposed to interest rate risk in terms of its exposure to rate movements on its investments and short-term borrowings. The impact on the Income and Expenditure Account of rate changes on interest receivable and interest payable on such transactions is nominal in relation to ESPO turnover. For example, the effect of a 1% increase in rates would be an increase in income on investments of £118k. The effect of a 1% decrease would have the opposite effect. 1% has been used for this analysis as this reflects the maximum expected movements in market rates over the next 12 months.

The effect of interest rate exposure is recognised within the annual budget and regularly monitored by management.

Foreign Exchange Risk:
The organisation has no assets or liabilities denominated in foreign currencies as imports and exports are priced in sterling. Movements in exchange rates may impact on the sterling prices quoted by overseas suppliers although the extent of this influence is not calculable.

31. Accounting Standards Issued but not yet Adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cash flows and business model for holding the assets. Due to the classification and security of the majority of ESPO's financial instruments, the impact of the change is unlikely to have a material impact on the financial statements.
- IFRS 15 Revenue from Contracts introduces a five-step process for recognising revenue based on the transfer of control rather than the current transfer of risk and rewards. ESPO does not have any material revenue streams within the scope of the new standard.
- IAS 7 Statement of Cash Flows (Disclosure Initiative) may require additional analysis of Cash Flows from Financing Activities (disclosed at Note 31). These amendments will not have a material effect on the financial statements.
- IAS 12 Income Taxes (Recognition of Deferred tax Assets for Unrealised Losses) applies to deferred tax assets related to debt instruments measured at fair value. ESPO does not hold any such debt instruments.
- IFRS 16 Leases will require ESPO to recognise most leases on balance sheet as right-of-use assets with corresponding lease liabilities. The code is expected to change for 2019/20. The impact of the change is being assessed.

32. Expenditure and Funding Analysis

The Expenditure and Funding Analysis is a new 2016/17 requirement. ESPO does not report on a segmental basis and has no resource allocation information to present and therefore this is not relevant to the to the organisation's Statement of Accounts.

GLOSSARY OF TERMS

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices applied in preparing and presenting accounts.

ACCRUALS

Requires that costs and revenues are recognised in the accounts when incurred or earned not when money is received or paid.

AMORTISED COST

The amortised cost of a financial asset or financial liability is

- the amount at which the asset or liability is measured at initial recognition (usually "cost")
- minus any repayments of principal,
- minus any reduction for impairment or un-collectability, and
- plus or minus the cumulative amortisation of the difference between that initial amount and the maturity amount.

BALANCE SHEET

The Balance Sheet represents the organisation's financial situation as at the Balance Sheet date. The Balance Sheet is composed of two main parts:

Net Assets and

Total Reserves.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty within 24 hours. Cash equivalents are investments of less than 3 months from acquisition that are readily convertible to known amounts of cash with insignificant risk of a change in value.

CAPITAL EXPENDITURE

Capital expenditure represents expenditure on the construction, acquisition, development or improvement of Property, Plant and Equipment and of Intangible Fixed Assets.

CAPITAL RECEIPTS

Income received from the sale of capital assets.

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

A summary of the resources generated and consumed by the organisation in the year. It summarises trading income and expenditure for the relevant financial years of all functions for which ESPO is responsible.

CASH FLOW STATEMENT

The Cash Flow Statement summarises the inflows and outflows of cash and cash equivalents resulting from operations and from investing and financing activities. It also shows how the net cash flow from operations is related to the Net Surplus or Deficit on the Provision of Services.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the lead body for setting standards in the public sector accounting practice.

CONTINGENT LIABILITIES

Contingent liabilities are possible future liabilities that will only become certain on the occurrence of some future event. A contingent liability is less certain than a provision: the latter is expected to occur, a contingent liability might occur.

Contingent liabilities are not shown in the Balance Sheet, but must be disclosed in the notes.

CREDITORS

Creditors are financial liabilities arising from goods or services that have been received but for which payment has not been made by the Balance Sheet date.

CURRENT ASSETS / LIABILITIES

Current liabilities are the debts the organisation owes which must be paid within one year. They are the opposite of current assets. Current Assets are assets that can be convertible in to cash at short notice.

DEBTORS

Debtors are amounts owed to the organisation where the services and goods have been delivered but payment has not been received by the Balance Sheet date.

DEPRECIATION

Depreciation is a non cash expense that reduces the value of an asset as a result of wear and tear, age or obsolescence.

FAIR VALUE

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

A statement of common accounting practice, devised by the International Accounting Standards Board, which is applicable to the majority of large organisations, both within the public and private sector.

GENERAL FUND

This is the organisation's main revenue fund. It provides the resources necessary to sustain the day-to-day business activities and thus pays for all administrative and operating expenses.

IMPAIRMENT

A loss in the value of a fixed asset, arising from physical damage such as a major fire or a significant reduction in market value.

INTANGIBLE FIXED ASSETS

Non financial fixed assets that do not have any physical substance but are identifiable and are controlled by the organisation through custody or legal rights (e.g. purchased software licences).

LEASING

A method of financing the acquisition of assets for e.g. equipment, vehicles and plant etc.

There are two forms of lease:

A finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.

An operating lease involves the payment of a rental by a lessee for a period, which is normally less that the useful economic life of the asset.

LONG TERM BORROWING

Loans raised to finance capital spending which have still to be repaid.

MOVEMENT IN RESERVES STATEMENT

This statement represents the changes in the organisation's financial resources over the year and is analysed in to "usable reserves", those that can be applied to fund expenditure and "unusable reserves".

NET BOOK VALUE

This is the asset's original cost less the depreciation or amortisation.

NET WORTH (NET ASSETS/LIABILITIES)

This is the value by subtracting the total liabilities from the total assets in the Balance Sheet.

NON CURRENT ASSETS

An asset which is not easily convertible to cash within twelve months. Examples include Fixed and Intangible assets.

PROVISIONS

A provision is a liability of an uncertain timing or an amount.

PUBLIC WORKS LOAN BOARD (PWLB)

The Public Works Loan Board is a government agency which provides long term loans to local authorities, usually at advantageous interest rates.

REMUNERATION

All sums paid to an employee, including expenses, allowances and redundancy payments chargeable to UK income tax, and the monetary value of any other benefits received other than in cash.

REVENUE

Expenditure that ESPO incurs on the day to day costs of its goods and services including purchases for resale, salaries, premises costs, vehicles and other running expenses as well as charges to provide funds for renewals of non-current assets. This expenditure is funded from income generated from the supply of goods and services to customers.

UNUSABLE RESERVES

Unusable reserves are those which do not represent funding that is available to support service delivery. These reserves generally arise from statutory adjustments and the treatment of unrealised changes in the value of assets or liabilities.

USABLE RESERVES

A usable reserve represents resources the organisation can control in making service delivery decisions. Each usable reserve may have different restrictions upon its potential use, dependent upon decisions made by the organisation.

Annual Governance Statement 2017/18

1. SCOPE OF RESPONSIBILITY

ESPO is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. ESPO also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, ESPO is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

ESPO has approved and adopted a code of corporate governance as best practice, which is consistent with the principles of “The new Delivering Good Governance in Local Government Framework” (CIPFA/Solace, 2016). This statement explains how ESPO has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, regulation 6 (1a and 1b) which requires all relevant bodies to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement. The overall aim of the new Delivering Good Governance Framework (which must be applied to annual governance statements prepared for the financial year 2017/18 onwards) is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values by which the Organisation is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Organisation to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ESPO’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at ESPO for the year ended 31 March 2018 and up to the date of approval of the annual report and statement of accounts. ESPO’s governance environment is consistent with the seven core principles of the Delivering Good Governance Framework, within each principle we have identified the sources of assurance.

PRINCIPLE A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of the law.

Under this principle, there is a requirement to:

- Behave with integrity
- Demonstrate a strong commitment to ethical values
- Respect the rule of the law

Description of Governance Mechanisms: *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Annual Governance Statement • Performance appraisals • Anti-fraud and anti-corruption policies • Whistleblowing arrangements • Code of Corporate Governance • Financial regulations • Members and Officers Codes of Conduct • Decision making practices/framework • Register of Interests and Gifts and Hospitality • Ethical awareness training and dealing with conflicts of interest • Procedures for responding to behaviour complaints • Protocols for partnership working • Communicating shared values with members, staff, the community and partners	• Registers of Interests and Gifts and Hospitality maintained by the Directorate office. • Adopted LCC Employee Code of Conduct. 'Dignity At Work' Policy and Procedures provides employees with examples of unacceptable behaviour, and is complimented by other HR policies. • Constitution sets out financial rules and regulations. Legal advice provided by a Commercial Solicitor (Leicestershire County Council Employee) • Adopted LCC Anti-Fraud & Corruption Policy, Strategy and Procedures. • Whistle blowing policy in place on the intranet. • Members of individual authorities are subject to their own Code of Conduct. • Various training rolled out through E-Learning, certain courses are now mandatory to complete. • Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. • Annual Governance Statement produced by compiling and scrutinising information from departmental Self Assessments. • Organisational values considered during PDR, complimented by regular communications displaying the vision and mission statements. • A full review of Values and Behaviours has been undertaken with workshops being held during February and March 2018. New values and behaviours have been agreed with the Leadership Team and communicated to all members of staff. • New induction process implemented in 2017. Part of the HR induction is to ensure new starters are aware of the policies in place and that they have a duty understand and comply with the policies. • High senior level meetings are held to establish standard operating principles, Management Committee, Chief Officer Group, Senior Officer Group and Leadership Team. • Financial budgets are delegated to the relevant Leadership Team Leader with appropriate authorisation obtained and procurement matters are authorised within the scheme of delegation, through pre and post Procurement Panels. • ESPO has an agreed position with regards to the Modern Slavery Act 2015. • Breaches in law are reported to the appropriate personnel and procedures are in place to handle such grievances.	

PRINCIPLE B: Ensuring openness and comprehensive stakeholder engagement

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

- Display openness
- Engaging comprehensively with institutional stakeholders
- Engaging stakeholders effectively

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Annual Report • Freedom of Information Act publication scheme • ESPO website • Clear policies on consulting and involving staff in decision making. Full Public meetings protocol observed as advised by LCC Democratic Services (observing requirements of public reporting, and private session routines for commercially sensitive subject matter) • Annual financial statements • Database of stakeholders • Communication Strategy • Calendar of dates for submitting, publishing and distributing timely reports • Decision making protocols / records of decisions and supporting materials	• The Statement of Accounts are published every year. The Statement of Accounts have been produced in line with various regulations. • Freedom of Information (FOI) and Environmental Information Regulations Policy underpin the key principles of the Information Management Strategy in that ESPO embraces a culture that is open, accessible and accountable, aiming to publish as much information as possible. FOI practices are in place to enable ESPO to meet obligations and aid understanding of public interests. • ESPO website is frequently used as a medium to inform and engage with the stakeholders and updates on the homepage direct users to key information including ESPO's vision and mission statement. • Full public Annual Report providing information on outcomes and achievements. • ESPO recognises the importance to consult, involve and listen to stakeholders so that the organisation can be improved and future plans made. • Regular Member Authority visits are undertaken by the Director to enhance and improve working relations and communicate any relevant and appropriate information as necessary. • Where collaboration takes place, the arrangements are based on trust and a commercial footing which is shared and agreed. In such arrangements "added value", changing behaviour and challenge is the sole driver for partnership collaboration. • Regular customer surveys are carried out to ensure feedback mechanisms are in place to take in to account stakeholder views. • Alignment of key decision making to the key protocols and delegated powers set out in the ESPO constitution. • Regular staff briefings take place be it via the Employee Engagement Group, Director's briefing, or the Senior Officers Enablers group. • The medium term financial strategy is communicated to all. • Development of ESPO's website to enable greater digital access. • Minutes are available from all Management Committee meetings, Finance and audit Sub Committee meetings, Chief Officer Group meetings and Leadership Team meetings. • Regular supplier meetings and visits are undertaken as part of the catalogue range strategy. • Brand guidelines are followed and clear expectations on our brand and reputation are clearly communicated to all our stakeholders.	.

PRINCIPLE C: Defining outcomes in terms of sustainable economic, social and environmental benefits

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

- Define outcomes
- Ensure sustainable economic, social and environmental benefits

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Business Strategy and supporting projects (delivery and strategic) • Service / Business Plans supported by relevant strategies • Communication Strategy • Performance trends and reports on the progress of service delivery • Business and financial planning process • Service Level Agreement in place with the Servicing Authority • Effective performance management system including Key Performance Indicators and identifying areas for improvement	• A strategy which sets out how efficiencies included within the MTFS will be achieved. • Outcomes are delivered through Assistant Director's plans and strategies which set out objectives and targets in relation to ESPO's priority outcomes. • Communication strategy that is based on a brand survey of our customers allowing us to provide a better service to our stakeholders. • Performance trends reported through balanced scorecard. Also trends identified in monthly and weekly financial reports. • Annual Report considered by members – supported by approved Medium Term Financial Strategy and Annual Statement of Accounts. • Industry benchmarking measures undertaken in some departments to determine value for money. For example, competitors' Annual reports are reviewed. • Following best practice guidelines in managing energy efficiently to reduce the environmental impacts.	

PRINCIPLE D: Determining the interventions necessary to optimise the achievement of the intended outcomes

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

- Determine interventions
- Plan interventions
- Optimise achievement of intended outcomes

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Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Finance and Audit Subcommittee • Approved Risk Strategy/Policy • Legal advice provided by officers • Communications strategy • Service Level Agreement in place with the Servicing Authority • Service Business Plans supported by relevant strategies • Business and financial planning process • Effective performance management system including progress on Key Performance indicators and identifying areas of improvement • Quality of information provided which needs to support decision making • Decision making protocols / records of decisions and supporting materials	• Finance and Audit Subcommittee receive reports on the revenue budget and capital programme and performance reports in relation to targets and commitments and action plans arising from inspection and assessment reports. • Terms of References for Committees and decision making protocols are detailed in the Constitution - records of decisions, with supporting materials can be made available • ESPO's risk management framework aligned with local government best practice – providing assurance to the Leadership Team, Members and public that ESPO is mitigating the risks of not achieving key priorities. This is further audited through the internal audit programme of work. • Members of the Management Committee actively engage and take interest in risk management, including detailed scrutiny of the Corporate Risk register. This is reported quarterly. • Chief Officer Group Assurance • External audit assurance • Mentoring of reports to ensure propriety of decision making and that legal advice is included where necessary and appropriate • Receiving professional advice and support as and when required to ensure that services are delivered effectively • Regular customer surveys are undertaken, with a FEEFO service rating process in place.	

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PRINCIPLE E: Developing ESPO's capacity including the capability of its Leadership Team and all staff members

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

- Developing ESPO's capacity
- Develop the capability of ESPO's Leadership Team and all staff members

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Induction programme • Officer training and development plans • Availability and communication of L&D activities • Performance reviews of officers • Workforce Planning • Member training and development	• A new induction process and booklet has been introduced during FY 2016-17. This has been tailor made to ESPO and includes an HR induction followed by a quarterly corporate induction meeting which provides an overall overview of ESPO, the departments, key priorities, organisational values and behaviours along with the MTFS targets. • All staff are required to complete mandatory training and for new starters this is issued as part of the induction process. • The Wellbeing Charter for ESPO commenced in FY 2016-17 to support individuals in maintaining their own physical and mental wellbeing. This is led by the Health & Safety Advisor and the Employee Engagement Group provides strategic and operational direction. • Regular Performance Development Reviews are undertaken throughout the organisation on a regular basis and are aligned to the ESPO strategy. • Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers at all grades assessed against behaviours which underpin the management competency framework. • Performance management and reporting systems in place at various levels, allowing outcomes to be cascaded and linked to individual development plans. • Continuous benchmarking carried out to improve reporting and performance at all levels. • Member meetings with Director on quarterly basis. Also Members are invited to ESPO to review the business and meet officers. • Introductory briefings carried out for new members, with refresher insight days offered at regular intervals (normally coinciding with the on-site Management Committee meeting) • A workforce strategy has been undertaken and agreed with the Leadership Team in February 2018. A workforce strategic implementation plan to underpin this is being designed for approval to enhance the strategic allocation of resources, skills and development and plan for future requirements. • ESPO is currently also in the process of designing a People Strategy. • Regular briefings and communications are in place so that all staff are kept informed of key operational, departmental and corporate objectives through the weekly staff update, Director's briefings, team meetings, Senior Officers Enabler's group and the Employee Engagement group. • Constitution sets out ESPO's political structure and roles and responsibilities of the Committees, the Chief Officers and the rules under which they operate. There are specific job descriptions in place for all members of staff. • Succession planning is reviewed for each service / department. • ESPO has a dedicated Health & Safety Advisor.	

PRINCIPLE F: Managing risks and performance through robust internal control and strong public financial management

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

- Manage Risk
- Manage performance
- Robust internal control
- Manage data
- Strong public financial management

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Approved Risk Strategy Policy • Scheme of delegation, standing orders and financial regulations • Constitution is regularly reviewed • Code of Corporate Governance • Annual Governance Statement • Decision making protocols / records of decisions and supporting materials • Medium Term Financial strategy • Statement of Accounts and Annual Report	• A Corporate Risk Register is maintained and reviewed each quarter. This is regularly reported to the Management Committee • Established finance function maintains sound financial frameworks and supports delivery of MTFS • Management Committee maintain oversight of management and stewardship of ESPO and the minutes of these meetings are available. • Constitution sets out "Responsibility for Functions" including scheme of delegation to the Director. Also includes financial regulations and contract procedure rules, which have been further updated to reflect current delegations and procedures at ESPO. • Monitoring officer and CFO are responsible for ensuring an appropriate framework exists to ensure procedures are followed. • Regular meetings take place with the Chairman, the Director and the Servicing Authority. • Assessment of compliance with the statement on the role of the Head of Internal audit. • The Code of Corporate Governance and Annual Governance statement is maintained and reviewed on a regular basis. • External and internal audit assurance. • Terms of Reference for Committee and decision making protocols are detailed in the constitution – records of decisions, with supporting materials are available. • ESPO, under Leicestershire County Council's guidelines has started preparing for the new General Data Protection Regulations which come into force in May 2018. Awareness training has been provided by Leicestershire County Council to enable members of staff to prepare for this. • Appropriate IT policies and procedures are in place.	.

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

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

- Implementing good practice in transparency
- Implementing good practices in reporting
- Assurance and effective accountability

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Approved Risk Strategy Policy • Code of Corporate Governance • Annual Governance Statement • Statement of Accounts and Annual Report • Local Government Transparency Code 2015 • Freedom of Information Scheme • External audit • Compliance to rules and regulations • Health and Safety • Safety certifications	• ESPO is adhering to the Local Government Transparency Code 2015 and the data is published under Leicestershire County Council's website as the Servicing Authority. • ESPO produces a Statement of Accounts and Annual report each year which is audited by external auditors. • ESPO adheres to Freedom of Information requests as appropriate. • The Service Level agreement is available for review. • Finance and Audit Subcommittee receive reports on the revenue budget and capital programme and performance reports in relation to targets and commitments and action plans arising from inspection and assessment reports. • Internal Audit Service annual plan of audits provides assurance that the governance, risk management and internal control systems of ESPO are operating effectively. • All statutory deadlines are adhered to on a regular basis. • HMRC Audits provide assurance. • Where necessary all inspection and certifications are carried out on a regular basis and certificates are available for review for example Gas safety certification, delivery vehicle services and Transport Management Inspection from FTA LOLER certification.	.

3. REVIEW OF EFFECTIVENESS

ESPO has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers and Leadership Team within ESPO who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's (HoIAS) annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The CIPFA/SOLACE Delivering Good Governance in Local Government; Framework (2016) details the key sources of typical systems and processes that an organisation can adopt to ensure it has an effective system of internal control. Using this guidance ESPO can provide assurance that it has effective governance arrangements, which have been established through the following:

Code of Corporate Governance

The Director has a duty to monitor and review the operation of the Code of Corporate Governance and as part of this process the Director ensures an annual assessment of the Organisation's compliance with the Code of Corporate Governance is undertaken.

Internal Audit Service

Background

During the financial year 2017-18 Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO.

LCCIAS has been independently assessed as conforming to the Public Sector Internal Audit Standards (the PSIAS) which were revised in April 2017. Revisions to the PSIAS were reflected in an updated Internal Audit Charter for ESPO mandating the purpose, authority and responsibility of the internal audit activity. The Charter was approved by Management Committee on 28 February 2017. As part of his Annual Report requirements (and in preparation for the independent assessment), the HoIAS conducted a self-assessment of LCCIAS' conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. Whilst, a few specific areas have been identified where action is needed these are not significant deviations to the PSIAS. The HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

In order to meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control, the HoIAS constructs an annual risk based plan of audits. Given the continuing improvements in risk management at ESPO, the plan is primarily based on the contents of Corporate Risk Register, the four year Strategy and the AGS, to ensure that current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial systems that are used by the External Auditor in their audit of the financial accounts. A contingency is retained for unforeseen risks, special projects and investigations.

Internal audit reports often contain recommendations for improvements to the area being audited. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks are unlikely to arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. attendance at Committees, evaluations of the work of other assurance providers, meetings with the Consortium secretary and Treasurer), facilitate the HoIAS to forming the annual internal audit opinion on the overall control environment..

The HoIAS presents a detailed annual report to the Management Committee in June. The annual report incorporates the annual internal audit opinion; a summary of the work that supports the opinion; performance against the plan, a statement on conformance with the PSIAS, a review of the Quality Assurance and Improvement Programme and any matters to be raised in the AGS.

For 2017-18 based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following sub-opinions were reached:-

a. Governance related audits

   Other than two High Importance recommendations relating to ESPO's readiness for an ICO audit, nothing of significance, adverse nature or character has come to the attention of the HoIAS.. As such reasonable assurance is given that ESPO's governance arrangements are robust.

b. Risk management related audits

   Management has accepted internal audit recommendations which further mitigate risk; therefore overall reasonable assurance is given that risk is managed.

   All other internal audit recommendations which further mitigate risk were accepted, therefore overall reasonable assurance is given that risk is managed

c. Financial and ICT Control related audits

   Other than two High Importance recommendations relating to specific management of a contract, reasonable assurance can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs.

Risk management arrangements

Governance of Risk

ESPO's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. In order for risk management to be most effective and become an enabling tool, ESPO must ensure a robust, consistent, communicated and formalised process is established. The Risk Management Policy and Strategy is reviewed annually and approved by the Management Committee.

Risk management processes have been further entrenched into the management of the organisation with each member of the management team being responsible for reviewing changes in risk on a quarterly basis within their area of responsibility.

External Audit

ESPO's external auditors PricewaterhouseCoopers (PWC) gave detailed findings from their planned audit work of ESPO, to those charged with governance through:

Report to those charged with Governance

Under International Auditing Standards, external auditors are required to report to those charged with governance on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. The report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control, leading to an overall unqualified opinion.

Audit opinion for the 2016/17 Statement of Accounts,

The audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. For 2016/17, ESPO's statement of accounts presented a true and fair view, in accordance with the relevant codes and regulation.

ESPO's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Organisation which contribute to the production of the Annual Statement of Accounts and positive opinion presented by our external auditors.

Organisational Governance and Performance Framework

The Leadership Team and Management Committee receive a monthly Balanced Scorecard, which includes information relating to:

- Financial Information;
- Information issues;
- Procurement;
- Employee related information;

Annual Governance Assurance Statements

The annual review of effectiveness requires the sources of assurance, which ESPO relies on, to be brought together and reviewed from both a Service/Division and corporate view.

To ensure this Annual Governance Statement presents an accurate picture of governance arrangements currently in place, senior managers were required to complete a 'Governance Self- Assessment', which provided details of the measures in place within their area to ensure compliance (or otherwise) with the Revised Framework (2016). Where specific 'areas of improvement' were identified, these have been incorporated into an action plan for management to discuss and prioritise during the course of the next financial year.

In order to assist the HoIAS' opinion on the adequacy and effectiveness of ESPO's control environment, sample checking of the returns and supporting evidence was conducted. This included:

- Discussion on how the self-assessment was conducted, co-ordinated, discussed and signed;
- Selecting areas across the range of the six core principles to test if there was sufficient evidence to support the response;
- Appropriate officers are involved in the identification and determination of any significant governance issues that require incorporation in the Annual Governance Statement prior to its presentation to the Management Committee.

<u>The Role of the Chief Financial Officer (CFO) at ESPO this is the Consortium Treasurer</u>

CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government (revised 2016) sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them.

The CFO (Consortium Treasurer) is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management at ESPO.

<u>The Role of the Head of Internal Audit</u>

CIPFA's Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010) sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them. The Head of the Internal Audit Service for ESPO is also the Head of the Internal Audit Service for LCC.

ESPO's internal audit arrangements conform to the governance requirements of the CIPFA Statement. The HoIAS works with the Consortium Treasurer and Secretary, the Director of ESPO and other members of the Leadership Team to give advice and promote good governance throughout the organisation. The HoIAS attends the Finance and Audit Subcommittee and the Management Committee as and when required. The HoIAS also leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Organisation and external stakeholders, escalating any concerns and giving assurance on ESPO's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Organisation.

<u>The Role of the Consortium Secretary</u>

The Consortium Secretary has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful.
- ensuring that decisions taken are in accordance with ESPO's budget and it's Policy Framework
- providing advice on the scope of powers and authority to take decisions

Where in the opinion of the Consortium Secretary any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Management Committee accordingly,
In discharging this role the Consortium Secretary is supported by officers within the County Council's Legal and Democratic Services Teams

4. GOVERNANCE ISSUES

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that ESPO's overall financial management and corporate governance arrangements during 2017/18 were sound.

Progress on issues previously identified:

The table below describes the governance issues identified during 2016/17 and the progress made against this during 2017/18. These are not considered material governance issues:

Key Improvement Area	Update on position	Carry forward for 2018/19	Lead Officer
Business Continuity Up to date Business Continuity plans need to be implemented	Completed	Ongoing Training	Director

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2017/18 are sound, the assurance gathering process identified key corporate areas of improvement. Implementing actions to address these will ensure that identified weaknesses within ESPO's current control environment will be strengthened, and further enhance our overall governance arrangements.

The table below describes identified areas for improvements during the review period 2017/18 to carry forward for monitoring within 2018/19.

Key Improvement Area	Lead Officer	Deadline
Business Continuity Improvement in communication to members of staff. Implementation of training and scenario rehearsals.	Director	March 2019

5. FUTURE CHALLENGES

ESPO continues to face significant challenges in these times of austerity. All such significant risks are detailed within the Corporate Risk Register, which is regularly reviewed by the Leadership Team and presented to the Management Committee. Managing these risks adequately will be an integral part of both the strategic and operational planning for ESPO.

6. CERTIFICATION

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the above, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined above.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that ESPO has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Kristian Smith	Cllr. D. Seaton
Director	Chairman, ESPO Management Committee

Agenda Item 6

ESPO MANAGEMENT COMMITTEE 12 SEPTEMBER 2018

DIRECTOR'S ANNUAL REPORT 2017-18

REPORT OF THE DIRECTOR

Purpose of Report

1. To present to members the draft Director's Annual Report 2017-18.

Background

2. The Annual Report has been prepared in the same format as the prior year and reflects a focus on mission statement, values, governance and staffing issues as well as a summary of financial results.

Annual Report Governance

3. The report focuses first on what ESPO's mission statement is followed by a vision of the organisation in the future. It sets out in clear terms to the reader the journey that ESPO is engaged on for all stakeholders of the organisation.

4. The next section covers financial reporting and a summary of the trading results. This includes some historical performance data so readers can identify some important trends.

5. Following this the report covers the key marketing activity that has been engaged in over the previous twelve months. This indicates to the reader the brand development activities that have been engaged in as well as specific target marketing.

6. The next section covers significant matters which should be brought to the attention of the reader. This includes the revaluation of the land and buildings and the inclusion of the pension liability. An update on the four year medium term financial strategy is also included in setting out the strategic objectives of the organisation.

7. Finally the last section covers our long service employees and retirees. This recognises the vital contribution of ESPO's staff.

Resources Implications

8. None.

Recommendation

9. Members are asked to note the contents of the revised Annual Report for 2017-18.

Officer to Contact

Kristian Smith Director
0116 265 7931

Appendix

Appendix A – Draft Annual Report 2017-18

APPENDIX A

ANNUAL REPORT

WELCOME

Welcome to the ESPO annual report and account summary for 2017/18.

As budget constraint becomes the new norm for ESPO's loyal customer base we continue to seek innovative ways to provide value across our product range in ESPO's catalogues and also maximise value for money for our customers utilising either our energy offering or indeed any of our framework agreements. We were honoured and delighted to be awarded 'best supplier' for the second year running in the large supplier category in the British Educational Supplier Association (BESA) Awards. The wider social aspects of public procurement remain equally important to ESPO be that working with SMEs, considering our environmental impact or indeed the social value from our procurement activity. We are proud to be the largest professional buying organisation (PBO) in local government and look forward to continued collaborative working with the public sector to drive value in-line with our mission and vision.

37 YEARS IN PUBLIC SECTOR PROCUREMENT

Our mission statement

We will work in partnership with our stakeholders to drive value-for-money for the public sector through comprehensive procurement solutions.

ESPO is a public sector buying organisation which has been supplying the education and wider public sector for 37 years. We are jointly owned by six Member Authorities and are committed to providing value-for-money for our customers by pursuing best practice in procurement, sourcing, supply chain and contract management.

Providing access to a complete procurement solution, we offer a comprehensive products catalogue, access to over 150 frameworks and bespoke procurement advice.

Our team of professionals work hard, day-in and day-out, to bring our customers great value every day.

- 37 years of experience providing first-class procurement solutions for the public sector
- Access 25,000 product lines, with 10,000 held at our 120,000 square foot warehouse

- 90,000 products picked from our warehouse every week
- Over 6,000 customers delivered to every week
- Over 150 framework solutions and many other procurement solutions
- A dedicated team of over 300 staff

As well as meeting the buying needs of our broad customer base, we also understand the need to fully embrace the requirements of our Member Authorities. As such, we target a minimum of 3.5% return on capital every year.

We are dedicated to continual improvement, through the development of our staff as well as through proactive collaborations with customers and other partners to engage markets, challenge current practices and develop innovative sourcing strategies. Our commercial experience, market insight, category expertise and best practice procurement ensure that we can respond quickly and effectively to the changes in this dynamic and fast changing marketplace.

Our vision

We strive to be the first choice provider of public sector procurement solutions.

CONFIDENCE AND TRANSPARENCY

As a Local Authority owned organisation, we are governed by a rigorous structure of controls. As part of this process, we produce a set of accounts which informs our stakeholders that ESPO has properly accounted for all public money received and spent. This gives them confidence that our financial standing is secure.

Managing risk performance is also an integral part of our day-to-day operational performance; and risk management is monitored and reviewed through a compliance process and a risk strategy. In addition to management at operational level, oversight and escalation is through the ESPO Leadership Team and the ESPO Management Committee.

Our financial activity in relation to the service we provide is shown through a number of key financial statements and notes. These can be found throughout this annual report.

TRADING RESULTS

ESPO's income is derived from multiple sources and this has been strength in a dynamic and challenged educational supplies market. The market place has seen acquisition, market exits and also new entrants over the last trading year. ESPO continues to deliver to its financial plans and is growing its reach with customers in new geographies and parts of the sector.

There has been pleasing growth in ESPO's income associated with the procurement activity it undertakes either as national frameworks or indeed local procurement solutions. There is clear evidence of greater engagement in these solutions and ESPO continues to build its reputation as a fantastic proposition for value for money compliant access to over 1500 suppliers.

ESPO has continued to invest in its premises, its operation and its information technology capabilities.

Overall ESPO has delivered to its financial forecasts achieving over £80 invoiced sales in 2017-18 and set out a credible plan for the future trading years in its medium term finance plan. ESPO remains a financially strong and growing market participant.

PROCUREMENT UPDATE

Our customers value ESPO's procurement solutions which are delivered by skilled procurement experts. In order to maintain this high level of expertise, ESPO continues to invest in this cohort of staff with appropriate training. During late 2017, Negotiation and Supplier Management Skills Training was delivered to procurement staff with Insurance Training being delivered to procurement teams to contribute towards a better understanding of insurance factors and to enhance decision making.

MARKETING ACTIVITY

In 2017-18 ESPO was represented at multiple events, exhibitions and conferences promoting both our education and corporate offerings. Made up of local and national events, this channel continues to play a strong part in our annual marketing plan. Some of the key events included:

- The Academies Show (London and Birmingham)
- Youth Sports Trust Annual Conference
- The LACA Main Event (catering)
- NASBM National Conference (School Business Managers)
- Inspiring Leadership Conference (Within Education)
- Public Sector Show (London and Manchester)

To develop our presence at exhibitions we have hosted seminars at both the NASBM National Conference and the Academies Show (London). We also held our own Consultancy LIVE exhibition which focused on the launch of our Consultancy framework. Highlights of the year include winning Supplier of the Year (over£10m) at the Education Resources Awards for the first time and successfully rolling out new branding for our procurement solutions.

SIGNIFICANT MATTERS

A valuation of the land and buildings at Grove Park has been carried out and the valuation now stands at £12.66m, an increase of £596k on the prior year.

PEOPLE AT OUR HEART

Reporting on another successful year would not be complete without taking the time to recognise the extraordinary efforts of the staff here at ESPO. We are fortunate to have so many long standing members of staff and during the past year the following have achieved their 25 years Long Service Award:-

Jane Fish
Carole Maher
Anita Parmar
Jim Rigby

In addition, I am proud to mention three members of staff who have exceeded this and marked 30 and 35 years with ESPO. My thanks and congratulations go to:-

Julie Ann Joyce
Jayne Wortley

For achieving 30 years and:

Kevin Matthews

For achieving 35 years

IN SUMMARY

ESPO continues to perform in line with its challenging expectations with the spending restraint in customer base being the new norm. We will continue to strive to deliver for our customers and owners, whilst making ESPO a great place to be.

Kristian Smith
Director

ESPO MANAGEMENT COMMITTEE 12 SEPTEMBER 2018

ANNUAL REVIEW OF ORGANISATIONAL APPROACH TO RISK MANAGEMENT

REPORT OF THE DIRECTOR

Purpose of Report

1. To annually review ESPO's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

Background

2. A number of recommendations were identified as a result of a recent review by LCC Internal Audit. None of these resulted in a High Level recommendation. The principal recommendation was that we consolidate the Corporate Risk Register with the Major Risk Record in one document. This has been implemented.

Risk

3. The current ESPO Risk Management Statement has been reviewed and updated as a result of the LCC Internal Audit and is attached as Appendix A.

4. The Corporate Risk Register is reviewed quarterly by the Leadership Team. Any increased risk, or new risk identified that could have a material impact on ESPO's business will be reported to COG, and where appropriate to the Management Committee.

Resources Implications

5. None.

Recommendation

6. Members are asked to:

   a) note the contents of this report;

   b) approve the revised Risk Management Statement

Officer to Contact

Kristian Smith, Director
0116 265 7931

Appendices

Appendix A – Risk Management Policy
Appendix B – ESPO Corporate Risk Register greater than 10

Appendix A

Eastern Shires Purchasing Organisation

RISK MANAGEMENT POLICY STATEMENT

Version Control

Version	Date	By whom	Changes	Comments
1	Feb 2007		Formulated	Committee March 2007
2	Jan 2012	DS	Review and Update	Circulation to SMT and Audit for comment
2b	Feb 2012	DS	Updated by strengthening commitment	Committee March 2012
2c	Feb 2013	CP	Review and Update	Committee March 2013
2d	May 2014	CP	Review and Update	Committee March 2014
3	May 2015	CP	Review and Update	Committee June 2015
4	Feb 2016	SL	Review and Update	Committee March 2016
5	Feb 2017	SL	Review and update	Committee February 2017
6	Aug 2018	SL	Review and Update	Committee September 2018

Risk Management Policy Statement

Contents

RISK MANAGEMENT POLICY

Definitions

Eastern Shires Purchasing Organisation - "The Organisation"

Eastern Shires Purchasing Organisation's Risk Management Policy - "The Policy"

Definition of Risk

"The effect of uncertainty on objectives. This effect may be positive, negative or a deviation from the expected."

Definition of Risk Management

"The process, by which risks are identified, evaluated and controlled".

Purpose of this document

The Organisation recognizes that it has a responsibility to manage risks effectively. This should help to anticipate and provide a better understanding and respond to changing social, political, technological, economic, legislative and environmental threats.

Understanding the above should help the Organisation to minimise uncertainty in achieving its objectives and maximise the opportunities to achieve its vision.

The policy forms part of the Organisation's internal control and corporate governance arrangements.

The policy explains the Organisation's underlying approach to risk management, documents the roles and responsibilities of the Management Committee, the Director and Leadership Team, and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.

In addition, it describes the process the Management Committee will use to evaluate the effectiveness of the Organisation's internal control procedures.

The benefit of risk management is having the knowledge both to anticipate potential risk, but also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the effects of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability. Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

Underlying approach to risk management

The following key principles outline the Organisation's approach to risk management and internal control:

- The Management Committee has ultimate responsibility for overseeing the process of risk management within the Organisation as a whole and they will approve the Risk Management Strategy on an annual basis.

- The Director and the Leadership Team are responsible for anticipating and identifying, assessing and managing risk, and advising and implementing policies approved by the Management Committee. Managing risk will involve ensuring controls are in place and are regularly monitored. In addition the Director is responsible for alerting the Management Committee on new identified risks that are deemed to have a potential serious impact on ESPO business.

- The Organisation makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks.

- The Director and Assistant Directors are responsible for ensuring good risk management practice within their divisions

- The Director will report to the Chief Officers Group and Management Committee quarterly on the Corporate Risk Register.

Role of the Management Committee

1. The Management Committee has a fundamental role to play in the management of risk. Its role is to:

   i) Influence the culture of risk management within the Organisation.

   ii) Determine the appropriate risk appetite or level of exposure for the Organisation.

   iii) Approve major decisions affecting the Organisation's risk profile or exposure.

   iv) Ensure that a Corporate Risk Register is established, including details of the actions taken to mitigate the risks identified.

   v) Consider risks attached to proposals for new, or changes to, policies and service delivery arrangements

   vi) Annually review the Organisation's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

Role of the Director and Leadership Team

2. Key roles of the Director and Leadership Team are to:

   i) Establish, gain approval from the Management Committee and implement policies on risk management and internal control i.e. to ensure that an adequate risk management framework and associated control environment is in place. Liaise with the servicing authority on all aspects of risk management.

   ii) Identify, evaluate, and manage the fundamental strategic risks faced by the Organisation for consideration by the Management Committee.

   iii) Determine the level of risk appetite, currently set at 10.

   iv) Ensure regular updating of the Corporate Risk Register.

   v) Identify, evaluate, and manage all operational and strategic risks faced by the Organisation. These should be clearly identified as such on the organisation's Corporate Risk Register.

   vi) Business Continuity and Procurement, Health and Safety – sit at Operational risk register level but flow into the Corporate Risk Register because of their significance. The responsibility for managing these is still at Assistant Director level but with scrutiny and challenge by Director as to movement on actions.

   vii) Provide information in a timely manner to the Management Committee on the status of risks and controls. Timing will depend on the level of risk, but quarterly, and where addition or new risks are evaluated and escalated (such as new procurement projects) then these will be approved prior to sign off.

   viii) To maintain awareness of and promote the risk management policy to all relevant staff (use of key documents published via intranet).

   ix) Arranging/providing risk management training as appropriate

x) Ensure synergy with other “risk” systems, e.g. Health and Safety, business continuity and project management

xi) Undertake an annual review of effectiveness of the system of internal control and provide a report to the Management Committee.

Role of Procurement Management

3. Key roles of Procurement Management are to:

i) Maintain awareness of risk management principles and take responsibility for managing risk within their own working environment.

ii) Apply risk management to those risks requiring further action, particularly new developments and “procurement or project" work.

iii) Maintain, and update where appropriate any project records of risk assessments undertaken and resulting action plans.

iv) Reporting systematically and promptly to their managers or Leadership Team any perceived new risks or failures of existing control measures.

Risk management as part of the system of internal control

4. The system of internal control incorporates risk management. This system encompasses a number of elements that together facilitate an effective and efficient operation, enabling the Organisation to respond to a variety of operational, financial, and commercial risks. These elements include:

   a. Policies and procedures

   Standard Operating Procedures and policies are used to improve business efficiencies and reinforce a standard approach to documents that are used externally, whilst at the same time underpinning internal control processes. The policies are approved by the Leadership Team and implemented and communicated by senior management to staff. Written procedures support the policies where appropriate.

   b. Reporting

   Comprehensive reporting is designed to monitor performance, reviewing key risks where appropriate. Decisions to rectify concerns are made at regular meetings of the Leadership Team, and the Management Committee if appropriate. Market information is vital for developing management knowledge as a core element of the business.
   The mastering of such information through the monitoring of the external environment goes hand-in-hand with a comprehensive risk management process. Capturing and centralising such market intelligence will lead to developing better expertise and organisational capabilities, improving the quality of decision making, and enable a quick response to changing external conditions.

c. Business planning and budgeting

The business planning and budgeting processes are used to set targets, agree action plans, and allocate resources in order to achieve the long term objectives of the organisation articulated in the MTFS for 2017-2019. Progress towards meeting business plan targets is monitored weekly/monthly depending on individual targets.

d. High level risk framework (strategic risks)

This framework is compiled by the Leadership Team and helps to facilitate the identification, assessment and ongoing monitoring of risks fundamental to the Organisation. These are strategic risks that might impact on the high level, medium to long-term, goals and objectives of ESPO, together with those cross cutting issues that have potential to impact significantly on service delivery, business continuity and profit generation.

The Corporate Risk Register document is reviewed quarterly with emerging risks being added as required, and improvement actions and risk indicators are monitored regularly.

e. Operational risk management

These have been considered as the following:

- Health and Safety (Office, warehouse, transport);
- Procurement Projects;
- Business Continuity.

The latter has both strategic and operational aspects and has been considered in **separate documentation**.

i) Health and Safety is discussed quarterly by the Leadership Team in conjunction with risk management. It is chaired by the Director and attended by the full Leadership Team and the Health, Safety and Wellbeing Advisor. Meeting every six weeks, the Joint Consultative Committee acts as a conduit to the quarterly risk management meeting and is chaired by the Assistant Director – Operations and attended by the HR Advisor, trade unions, staff representatives and Health, Safety and Wellbeing Advisor. The function of the two groups is to review the measures taken to ensure the health and safety at work of employees. One of the main objectives of these groups is to promote co-operation between staff and management in instigating, developing and carrying out measures to ensure the health and safety at work of the employees.

Specific Objectives are:

- The study of accident and notifiable disease statistics and trends, so that reports can be made to management on unsafe and unhealthy conditions and practices, together with recommendations for corrective action;

- Examination of safety audit reports on a similar basis;

- Consideration of reports and factual information provided by inspectors of the enforcing authority appointed under the Health and Safety at Work Act;

- Consideration of reports which safety representatives may wish to submit;

- Assistance in the development of works safety rules and safe systems of work;

- A watch on the effectiveness of the safety content of employee training;
- A watch on the adequacy of safety and health communication and publicity in the workplace;
- The provision of a link with the appropriate enforcing authority;
- To fulfil the employer’s legal duty to consult with Health & Safety Representatives;
- To discuss and review the effect of new Health and Safety law and the organisation’s proposals for implementing the new law;
- To monitor and review the effectiveness of the organisation’s safety policy;
- To develop and agree health and safety standards and procedures applicable to the workplace;
- To review the organisation and administration of any occupational health and safety services provided by the organisation.
- Review of insurance or other such claims and recommend measures to reduce the likelihood of future claims

ii) Procurement. ESPO has significant procurement expertise to enable it to handle a diversity of contracts, some of which are particularly complex. ESPO has developed a business case process that requires both reward and risk to be evaluated and assessed as part of the compliance process. Risks are assessed at a Pre-Procurement Panel and at Contracts Panel (contract award) and on rare occasions are escalated to the Leadership Team. Supporting the tender process are a series of Standard Operating Procedures and a library of standard documentation.

iii) Business Continuity. A complete rewrite of our Business Continuity documentation has been undertaken by our recently appointed Business Continuity consultants, Phoenix. It was considered important to appoint experts in the field to update our existing documentation. This policy is reviewed on an annual basis.

iv) The risks within the change programme have now been incorporated in to the CRR. Alongside the risks within the CRR, any risks that have a residual score of 10 or more are reviewed on a quarterly basis. Any new risks are added and obsolete risks are deleted from the register.

The following statements may be applicable for inclusion within the policy:

f. Fraud and Corruption

The organisation is set against fraud and corruption and is committed to an effective Anti-Fraud and Corruption Strategy. Identification and addressing the risk of fraud and corruption are a key element within this risk management strategy. All members of staff are also required to undertake a mandatory course on fraud and Awareness to facilitate the above.

g. Auditors

LCC Internal Auditors are required to report to the Director and Consortium Treasurer on internal controls and alert Management to any emerging issues. In addition, the Director and Treasurer oversee internal audit, external audit and management as required in their review of internal controls. They are therefore well-placed to provide advice to the Management Committee on the effectiveness of the internal control system, including the Organisation’s system for the management of risk.

h. Internal audit programme

Internal audit is an important element of the risk management process. Apart from its normal programme of work, internal audit is responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation.

i. External audit

External audit provides feedback to the Management Committee on the operation and adequacy of the internal financial controls reviewed as part of the annual audit.

j. Third party reports

From time to time, the use of external consultants will be necessary in areas such as marketing, IT systems and human resources. The use of specialist third parties for consulting and reporting can increase the reliability of the internal reporting systems.

k. Chief Officer Group (COG)

The COG consists of chief officers from all member authorities who meet regularly with the Organisation’s senior management. The COG provides advice and guidance to facilitate the identification and assessment of procurement risks to the Organisation.

Annual review of effectiveness

5. The Management Committee is responsible for reviewing the effectiveness of internal control of the Organisation, based on information provided by the Director, Treasurer and auditors. Its approach is outlined below.

6. For the fundamental risks identified, the Director will seek the Management Committee’s approval on the results of:

- A review of the Organisation’s prior year record on risk management and internal control

- A Review of the risk profile for the coming year and of the adequacy of current internal control arrangements.

- A recommendation, if required, for investment in further control arrangements.

7. In determining recommendations the Management Committee, the Director will consider the following aspects.

   a. Control environment:

      - The Organisation's objectives and its financial and non-financial targets
      - Organisational structure and calibre of staff available.
      - Culture, approach, and resources with respect to the management of risk
      - Delegation of authority
      - Public reporting.

   b. On-going identification and evaluation of fundamental risks:

      - Timely identification and assessment of fundamental risks
      - Prioritisation of risks and the allocation of resources to address areas of high exposure.

   c. Information and communication:

      - Quality and timeliness of information on fundamental risks
      - Time it takes for control breakdowns to be recognised or new risks to be identified.

   d. Monitoring and corrective action:

      - Ability of the Organisation to learn from its problems
      - Commitment and speed with which corrective actions are implemented.

8. The Director prepares a report of his review of the effectiveness of the Organisation's internal control system within the Annual Statement of Accounts and presented to the Management Committee for consideration and approval (normally the Committee meeting in June), prior to the final approval of Accounts in September.

RISK MANAGEMENT GUIDE

Background

ESPO Management and staff have been facing and managing risk for over thirty years resulting in a successful organisation that has exploited opportunities to become one of the UK's largest local authority purchasing consortiums.

However, in recent years there has been increasing focus on the corporate governance arrangements of both public and private companies with the aim of achieving greater transparency. This requirements is reinforced by the recommendation that local authorities should make a statement as to how they have complied with their local governance code, and how they have monitored the effectiveness of their corporate governance arrangements in their annual Statements of Accounts.

Risk Management provides assurance that:

- objectives are more likely to be achieved;
- damaging events will not happen or are less likely to happen
- beneficial events will be or are more likely to be achieved
- make more informed decisions
- prevents injury, damage and losses and reduces the cost of risk.

The risk management method enables:

- the identification and evaluation of risks;
- helps in setting acceptable risk thresholds;
- the identification of controls against such risks; and
- helps identify indicators that give early warning that a risk is becoming more serious
- embraces and exploits opportunities to explore new innovative ways of working and identifying opportunities to reduce costs and improve outcomes
- Improve co-ordination and consistency of service delivery
- Supports sustainable improvements in our activities and the achievement of value for money.

Risk Definition

Risk is the threat or possibility that an action or event will adversely or beneficially affect the organisation’s ability to achieve its objectives.

This definition links risk to achieving the strategic and business objectives and also identifies that risk management is not just about recognising and mitigating negative risks but also identifies risk-taking opportunities that may lead to positive benefits.

Risk can be seen as short term, such as an event, or a conjunction of events harmful to both tangible and intangible assets. It can be also be long term where there is a gradual disconnect between the organisation and its external environment.

Risk management is having the knowledge both to anticipate potential risk, but also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the effects of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability.

Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

Internal controls

Internal controls are a range of regulations, procedures and policies the organisation uses to manage its work and any additional controls or mitigating actions taken to deal with a particular situation.

The aim of risk management is to ensure that these controls are effective in identifying, evaluating, monitoring and minimising the risks ESPO faces in its day-to-day activities or any future ventures.

The level of risk faced by an organisation before any internal controls are applied is known as the gross or raw risk.

The level of risk faced by ESPO after internal controls have been applied is known as the net or residual risk. Controls will not eliminate the risk but help us to manage it; therefore this is also known as the organisation's "exposure to risk".

The controls are those management actions taken to deal with a particular risk. A judgement is made on the numerical reduction to the raw risk score to produce the residual risk score.

Risk Indicators provide a series of 'warning lights' which provide early warning that action may be required to mitigate a particular risk through stronger internal controls, or if it is outside ESPO's control, to be aware of it and closely monitor.

ESPO also has to determine where it resides it terms of a spectrum ranging from 'risk-taking' to being 'risk averse'. The amount of risk ESPO is prepared to tolerate before action is required is known as 'risk tolerance'

The Size of Risk - Heat Map represents the ESPO's risk scoring matrix.

The risk appetite is reviewed by the Management Committee and is currently set at 10. In the quarterly risk review meetings, all risks over 10 are reviewed. New risks and opportunities are added and obsolete risks are removed.

ESPO's Corporate Risk Register has a summary table ranking each risk according to its score.

The Management Committee will receive reports, at least annually, on risk management arrangements and assessments. This will include where appropriate any revised policy, and the corporate risk register. Any changes to risk levels highlighted as a result of the Health and Safety and the management of Business Continuity will be reported upon through the corporate risk register together with a report on risk management included within the annual statement of Accounts.

Risk Management Process

The stages are summarised below with a commentary on the arrangements at ESPO.

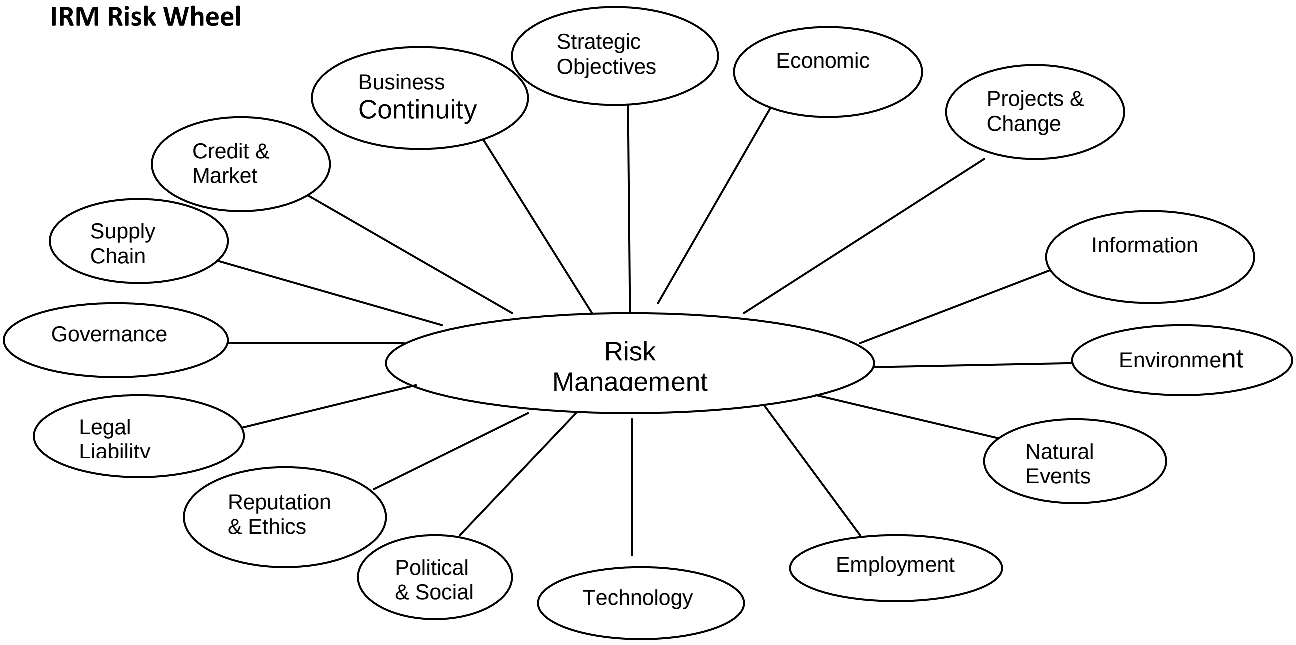
Identify the risks

This is the first stage to use where the risks that may affect a particular new activity, existing operational activity or project are listed. At this point opportunities can be considered and risks grouped. This work forms the basis of the risk register.

Risks can be classified as Internal or External with the latter being categorised as:

- Reputation
- Financial Loss
- People
- Regulatory
- Business Objectives

IRM Risk Wheel



Identify probable risk owner(s) and a risk co-ordinator

The risk owner assesses the risk, detailing how actions can be taken and by when to reduce the likelihood and severity of the risk to an acceptable level. All actions detailed need to consider and detail who is do what and when. If monitoring or reporting is involved the frequency and responsibility for such reports should also be included.

- All risk assessments should be dated (i.e. date of completion) and certified by the risk owner.
- Responsibility and an action completion date should be assigned to all actions on the CRR.
- Where risks are high, above a residual score of 10, with further action required, action taken and progress on further action taken should be monitored by the leadership team on a quarterly basis. Any new risks are added and obsolete risks are deleted.

All Risk owners for those risks that affect the whole organisation will be the Leadership Team. At a project level the risk owner should be the project manager. Risk owners should be added to the risk register.

The risk co-ordinator collates all the risks to create a risk register and manages the risk reporting process.

Evaluate the risks

The risks should then be evaluated for impact and likelihood. An assessment of the timing of the risk can also be made.

The scales used for impact and likelihood are as follows:

Impact:

1. Negligible
2. Low
3. Medium
4. High
5. Very High

Likelihood:

1. Very Low
2. Low
3. Medium
4. High
5. Very High

The combined scores on a 5 x 5 matrix will give scores ranging from 1 to 25 depending on the severity of the risk. These numbers are indicative only as the process is not an exact science but most importantly it assists in thinking about the risk.

The total risk score divisions are as follows:

1 – 6 - Low
8 - 12 - Medium
14 - 20 - High
Over 20 - Very high

The Size of Risk - Impact Guide provides examples for likelihood, impact and total risk score. Once this has been completed the risks are prioritised and ranked according to score and proximity. The risk register is updated accordingly.

Identify suitable responses to risk

Where needed, a range of practical responses to each significant risk on the risk register is be identified and recorded on the register.

Range of responses (controls) to a risk:

- **Reduce** - take action to reduce either the probability of the risk developing further, or its impact.
- **Accept** - when the probability and impact are low producing a total risk score below 7, or when it would be too expensive to mitigate a risk.
- **Transfer** - transferring the risk to a third party, e.g. insurance.
- **Terminate** - identifying actions to eliminate the risk such as withdrawing from the activity.
- **Contingency** - a plan of action to be implemented when a risk develops further or passes through a risk threshold.
- **Prevent** - identifying measures to prevent a risk having an impact on an organisation.

Responses are proportional to the risk and mapped against the risks on the risk register.

Implement responses

The most appropriate responses to each risk will be determined and implemented by ESPO Management in order of priority. Approval for additional earmarked funding required to implement responses may be requested from the Management Committee. Responses when implemented should bring the most serious risks below the risk tolerance thresholds. Once implemented the responses will be monitored by Management and amended as necessary

The risk tolerance threshold score has been set at 10 or less. The exact meaning of this value is somewhat subjective and this is will be reviewed annually to assess whether it is appropriate as a methodology to highlight the key risk areas. All strategic risks even with a score less than 10 will appear on the register. Those that are red will be prioritised and will be considered quarterly by the Leadership team.

Assurances about effectiveness

The risk responses implemented are assessed for effectiveness in keeping the risks within agreed tolerance levels by regular monitoring of the risk indicators. Internal and external audit reports provide further assurance on effectiveness.

Embed and review

The risk management arrangements are reviewed on a regular basis including a review of the risk register and a report will be produced for the Management Committee, normally in June. The report will assess the effectiveness of the measures to control risk with recommendations for improvement or development.

All risks are reviewed quarterly by the relevant Assistant Directors for their operational areas, but those risks above the risk appetite (>10) should feature in the CRR for review and monitoring by the Leadership Team with subsequent reporting to Chief Officer Group and Management Committee.

The Annual Governance Statement (June Committee) will also include a review of Risk Management policy and processes.

Size of Risk - Impact Guide

This Impact Guide is designed to assist in determining the scores applied to any risk. In the application within ESPO a 5 x 5 scale for impact and likelihood is used.

Impact ranges from Negligible (1) to Very High (5). Likelihood ranges from Very Low (1) to Very High (5). The combined scores on a 5 x 5 matrix will give scores ranging from 1 to 25. The scoring will be determined on the basis of the Leadership Team's opinion of the residual risk after taking account of their perception of the effectiveness of the existing controls. These numbers are indicative.

The combined risk score can then be calculated to determine the severity of the risk on the following scale:

- 1 - 6 Low
- 8 - 12 Medium
- 14 - 20 High
- Over 20 - Very high

Impact Grid

The Impact Grid is the scoring matrix referred to above with risk thresholds applied according to the total risk score. Applying colours in this way is sometimes known as the 'traffic light' method. This gives 3 levels of risk denoted by colours in this case - red being the most serious; yellow being the middle level; and blue the least serious.

If, upon review, a risk crosses one of the thresholds it should trigger either an increase or decrease in the internal controls applied to it.

Severity	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

	Red
	Yellow
	Blue

Size of Risk – Impact Guide

The Impact guides are only for guidance and are not intended to be prescriptive.
It should be the worst-case scenario that is usually used to rate the risk.

Level	Severity	Reputation	Financial (per	People	Regulatory	Business Objectives
1	**Negligible**	Internal	Less than £50,000	No	No	• No impact
2	**Low**	Local (Minor adverse publicity)	Between £50,000 - £250,000	Minor Injury	No Consequence	• Loss of a minor contract
3	**Medium**	Local or limited adverse publicity	Between £250,000 - £500,000	Major reversible injury	Limited regulatory consequence	• Major IT Project is late • Loss of a major contract
4	**High**	Negative headlines in national press	Between £500,000 - £750,000	Serious Injury	Significant regulatory consequence	• Member authority leaves Consortium • ESPO IT systems fail and cannot be recovered • Major loss of sales due to staff shortages in the warehouse e.g. Flu pandemic
5	**Very High**	Sustained negative headlines in regional/national press	Greater than £750,000	Fatality	Substantial regulatory consequence	• Major buildings fire resulting in closure • Sustained failure to recruit staff

Size of Risk – Likelihood

Level	Descriptor	Likelihood	Description
1	**Negligible**	2% Likely	May occur only in exceptional circumstances
2	**Low**	5% Likely	Not likely to occur in normal circumstances
3	**Medium**	10% Likely	Could occur at some time
4	**High**	20% Likely	Will probably occur in most circumstances
5	**Very High**	50% Likely	Is expected to occur in most circumstances.

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Risk Ref	Risk Description	Consequences / Impact	Risk Owner	Original Risk Score Impact	Original Risk Score Likelihood	Original Risk Score	Risk Action Tolerate / Treat / Transfer / Terminate	List of Current Controls / Actions Embedded and operating soundly	Risk Indicators to be used to monitor the risk	Current Risk Score (as at 31/12/17) Impact	Current Risk Score (as at 31/12/17) Likelihood	Current Risk Score	Risk Action Tolerate / Treat / Transfer / Terminate	Further Action / Additional Controls	Action Owner	Action Target Date	Q2 Comments / Updates
25	Increased competition	1. Possible implications on business volume, reputation, new business and on trading results in the Catalogue business 2. Through collaboration with CCS and YPO; CCS is dominating the management of such contracts (MFDs) including the management of the rebates; ensuring security of the income stream is becoming a major threat to ESPO's business model. 3. Amazon: moving deliberately into the public sector space, and focussing on education as a key are, Amazon have expressed interest widely within the market place at becoming more than an ad hoc supplier to schools of all levels, expressing their intention to partner with, or secure suppliers who have tailored offering for the sector.	Director	5	4	20	Treat	1. Working with suppliers and customers to improve the 'offering', facilitating this relationship through capturing and using business intelligence and managing this 'knowledge'. 2. Continue seeking efficiencies through international sourcing 3. 'Amazon: Continue to market our 'not for private profit' credentials and continue to craft our ranges to offer the very best solution to all tiers of education from our stock and directs position. To explore collaboration with our PBO neighbours to ensure opportunities are not missed in securing market share dominance on key lines such as paper, glue sticks and exercise books.	1. Changes to key customers' buying (as highlighted at Weekly Trading) 2. Fluctuations in rebate income (as highlighted at Weekly Trading) 3. Stalling of e-commerce uptake trends (as highlighted in IT update) 4. Amazon: Reduction in traditional stationery and direct electrical item sales at category level.	5	2	10	Treat	1. Review loyalty scheme – increased requirement on income streams 2. Robust sales and marketing strategy to be developed to reflect the heightened competition in this sector and to support the revised MTFS in 2017 3. Review of Customer Offer 4. MATs package	Director	Sep-18	13/06/2018 Amazon added to Consequences/Impact, Controls / Actions- and Risk Indicators.
58	Risk of loss of major supplier on MSTAR framework resulting in disruption and/or loss of supply for customers and loss on income for ESPO	1. Financial loss in terms of rebate outstanding from suppliers to ESPO. Also ESPO time in advising customers and helping them to migrate to new suppliers. 2. Reputational risk from stakeholders resulting from ESPO 'not having taken mitigating action' to minimise risk and impact. 3. Legal Risk in that stakeholders suffering financial loss may seek to hold ESPO liable in terms of negligence for 'not having taken mitigating action' to minimise risk and impact. 4. Operational Risk of customers not having a provider of services - PR risk to ESPO. 5. Business objectives risk of a reduction in choice for customers on the framework. 6. Business objectives risk for ESPO as there may be a reduction in customer confidence in other ESPO frameworks.	AD Commercial	4	4	16	Treat	1. Daily financial stability assessments on top 4 MSTAR suppliers (Comensura, Adecco, Matrix and Reed) using Creditsafe 'Bespoke Monitoring' report (& weekly on remaining 7). 2. Use of Creditsafe 'Risk Tracker' to flag any changes in suppliers' Creditsafe records, including publicity in the media for further investigation. Full Creditsafe reports run for suppliers (and parents where necessary) on a regular basis for review by ESPO Finance since May 2016. Training for Mstar contract managers provided (in confidence) by Creditsafe. Scope - signs to watch out for, what these might mean, possible actions to take, possible questions to ask, possible control measures. 3. Regular meetings with suppliers in the industry. 4. Meeting held with LCC legal on 19 May 16 for analysis of the legal risks facing ESPO and members, in terms of possible liabilities for managing the framework and migrating customers. Advice provided and fed into the migration flowchart in terms of risk. 5. Review of the above actions takes place at 1-2-1 meetings with Mstar contract managers.	1. Deterioration of financial stability metrics 2. Supply chain payment failures identified directly from sub-contractors or customers 3. Late provision of MI and/or late and/or understated rebate payment 4. Aggressive supplier behaviour and/or poor contract performance 5. Adverse publicity in the media or 'noise' in the industry for further investigation.	4	3	12	Treat	1. Increased frequency of rebate collection (subject to contractual constraints). 2. Audit of supplier framework business levels. 3. Audit of suppliers' supply chain payment practices. 4. Develop an emergency change management plan to migrate customers over to other suppliers in the event of failure of their existing supplier or supply chain. 5. Develop a 'balanced scorecard' of supplier 'framework management' performance in terms of provision of MI, payment of rebate and payment of agencies. A declining score may provide a lever for the parties 'to agree' to collect rebate more regularly. Exposure per supplier approx £15-£20k/qtr. 6. Recruitment of CRM post to enhance customer management and free resource to increase SRM activities.	Head of Procurement & Commercial	1. Not enforcable contractually - see also 5: max. exposure/ supplier = £20k/qtr - not proportionate? 3. Summer 2017 5. end of Sept 2016 6. June 2017	15/12/17 Supply chain audit completed, follow up actions in progress. Further Action/Additional Controls: 6. CRM recruited and in post. 12/06/2018 Work in progress on 2 high risk await recommendations: - payment terms - analysis of 'top' agencies chains 3. Commitment from the suppliers to work with us to improve payment performance. Included in quarterly reviews. 4. Emergency change management plan to be developed from analysis of top 5 agencies supply chain data & risks vary according to whether MSP/agency.
58.1	Risk of loss of major supplier on MSTAR framework resulting in disruption and/or loss of supply for customers and loss on income for ESPO (Continued)	...above continued... 7. Loss of confidence/less attractive MSTAR offer results in customers moving to competitor solutions.	AD Commercial	4	4	16	Treat			4	3	12	Treat		Head of Procurement & Commercial		

ESPO

68	ESPO's Legal Identity	If not clearly and correctly identified in contracts etc., risk of (1) contracts being ruled unenforecable (2) claims for losses arising (3) claims served against all six member authorities rather than servicing authority	AD Commercial	5	3	[illegible]	Treat	ESPO is a well established brand and the general perception is of contracts being with ESPO - and this has prevailed for over 30 years. As the number of disputes that result in legal action is so small, the perception has not been fully legally tested. In the case of frameworks, the risk is reduced/removed as the contract is between the customer and supplier.	size of risk >£750k = impact 5; rebate income from largest single frameworks is £800k[1], £400k, and £190k respectively. [1]Note, total rebate income from single supplier of gas and electricity across 2 frameworks is £900k. Risk exposure will decline as contracts renewed Gas F/W commences 1/4/19 Elec F/W commences 1/10/20.	5	2	10	Treat	(1) Revised definition of party inserted in ITTs, Contracts and Frameworks with immediate effect (2) review scope for retrospective application, where applicable/desirable and feasible and assess scale of remaining contracts and timescale to complete (3) other potential impacts include: catalogue Ts & Cs, Purchase Orders, Delivery Notes, website, marketing materials,	AD Commercial	commenced Oct 17	13/06/2018 1. Revised definition inserted in template, applies to all new contracts and frameworks. 2. Concluded this should not be included in exercise to vary contracts to account for GDPR and should be addressed on renewal.
70	Driving over the alcohol limit	1. Impaired judgement leading to accident 2. Possible injury or death to other road users and pedestrians.	AD Operations	5	2	10	Treat	Relies on staff to spot obvious signs of excess alcohol e.g. slurred speech, glazed eyes, unsteady, smell of alcohol. Driver signs daily report to confirm he is fit to drive.	Road Traffic Accidents Injuries to customers or drivers Contact from the police	5	2	10	Treat	A recommendation has been agreed to the People Strategy Board in Jan 2018 in conjunction with LCC E&T division to introduce a regime for testing drivers for excess alcohol. This will be via a breath test device, using a random selection criteria.	AD Operations	Implement testing regime within 1 month of LCC announcing new testing protocol	19/06/2018 Target Date updated.
CPR 0.3	Capacity to focus on development	1. Inability to deliver projects to timelines 2. Loss of engagement due to burn-out 3. Capacity and skills not in place to address new projects and activities 4. Project delivery is delayed by BAU taking precedence, benefits are postponed 5. Project delivery is perceived to be less important in the business with staff and customers losing faith in the brand 6. Senior capacity required to pursue new initiatives. 7. Multiple senior retirements in first half of 2018.	Director	5	3	[illegible]	Treat	1. Director-level support enables project members to be drawn from across business 2. Leadership Team support project leads in setting priorities 3. Key business developments are outlined within the strategy giving them prominence within the organisation 4. Consultant project managers can be engaged where required	1. Timelines not being met 2. Changes in allocated people resource 3. Elements of projects being shed	5	2	10	Treat	1. Overview plan should flags staff that are committed to multiple projects and shows milestones reflecting the timeline of how their commitment to a number of projects might be spaced out so consider recruitment of Business Manager post and project scope by summer. They will be part of finance working under Clive and be reflected in managed service agreement. 2. Review of skills and capacity and organisational approach required to deliver the MTFS laid out in 2018 – needs Servicing Authority engagement and support	Director	1. Ongoing 2. April 2018	

MANAGEMENT COMMITTEE – 12 SEPTEMBER 2018

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of Briefing Note

1. The purpose of this update is to inform the Management Committee of the actions and progress made since the last Management Committee meeting held on 13 June 2018.

Overall Financial Performance

2. Overall financial performance to July 2018 to date is outlined below:

Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	16,853.9		16,401.5		15,879.9	
DIRECT	5,860.3		5,405.8		5,284.2	
GAS	4,879.1		4,699.6		4,053.2	
CATALOGUE ADVERTISING	619.4		735.5		695.4	
REBATE INCOME	2,050.7		1,522.2		1,476.4	
MISCELLANEOUS INCOME	43.6		65.0		19.6	
TOTAL SALES	30,306.9		28,829.5		27,408.7	
TOTAL MARGIN	8,246.3		7,885.3		7,417.2	
TOTAL EXPENDITURE	6,224.6	20.5%	6,229.0	21.6%	5,843.6	21.3%
As % of Total Sales Excluding Gas		24.5%		25.8%		25.0%
TRADING SURPLUS	2,021.7	6.7%	1,656.3	5.7%	1,573.6	5.7%

ESPO Operational Progress

3. In July alone ESPO processed £5.340m of customer orders making 25,482 deliveries. Warehouse picking was performed at a rate of 35 lines per hour, improving on the revised target of 32 lines per hour. The YTD average order value for stock orders was £192.59 which is £6.84 higher than this time last year. Operational and supply chain costs were £3.372m against a budget of £3.427m, a saving on budget of £55k and an increase of £134k on last year.

4. ESPO took delivery of 10 new large goods vehicles (LGVs) in July, in line with the approved asset replacement programme. There were four 7.5T and six 12T vehicles from DAF which provide greater payload capabilities than the Ford Iveco. This will enable us to retire older vehicles from the fleet and improve our cost position with better fuel consumption and reduced maintenance costs.

5. The peak trading period of June and July has again been successfully managed, with all customer delivery promises met on time. This year it has been noticeable that the quality of available agency staff has been much reduced evidenced by poor attendance records and reduced productivity. Mitigation of these temporary labour risks is incorporated into ESPO's 'Operational Efficiency plan' through the tactical deployment of material handling equipment in line with previous approval.

6. In July Customer Services, Directs and the Catalogue Admin team handled 10,664 telephone calls with an average abandonment rate of 8% against a target of 3%. Although the Customer Services team were depleted with term-time staff on holiday this performance is disappointing. A review, by LCC Transformation team, into the ESPO's customer services and admin function will take place in the next few months. It is expected that this will highlight opportunities for integrating previously individual teams around a common theme of serving the customer. Order lines processed in July by Data Entry was 359,165. On-line orders in July were at 44.7%; reflecting the greater volume of manual SHO orders. On-line participation is stabilising around the 49% level. ESPO's year-to-date measure of customer satisfaction provided by FIFO is 90%.

7. The stock optimisation team maintained product availability of 97.84% and stock value was £6.384m with a stock-turn of 6.65. We have experienced availability issues on some stock keeping units with our exercise book supplier but we are hoping to complete all customer orders before the end of September. Longer term this risk is being resolved by moving greater production of the exercise books to the more reliable printer based in Poland. There was £515k of direct orders over two months which are being expedited. In most cases these are orders waiting for the schools to re-open in August and September.

8. There were no accidents in July and two near miss events. A powered pallet truck and a pedestrian nearly came into contact through a misunderstanding on right of way. Both parties have been instructed as to the safe system of work.

The second event saw a plastic bottle of paint fall from a pallet in the racks as it was being moved. The action taking was to highlight the need for pallets to be securely wrapped.

9. A Senior Health & Safety Advisor has been recruited with a start date of 24th September. Up to point an interim Health & Safety Advisor will provide the necessary cover.

10. Facilities management activity was focussed on creating a self-contained working environment on the mezzanine floor to accommodate the Eduzone business. The transition from Eduzone's site in Cuffley to the ESPO's Leicester warehouse has been carefully managed. Stock and IT equipment have been transferred and the first orders were picked by ESPO staff on 13 August in line with the plan.

11. Seven new reach-trucks were delivered in July to replace the 12 year old existing fleet. These new lift trucks feature many new safety and performance features such as cameras to assist with safe retrieval and put-away; tracking devises that provide truck utilisation data and blue safety lights which shine on the floor ahead of the moving equipment to alert pedestrians to the presence. This will also help to reduce the cost of operating the equipment through reduced maintenance costs.

12. LCC Transformation team have completed their review of ESPO's catalogue production process and are about to start their review of customer service administration. The catalogue review has provided a number of recommendations aimed at improving overall efficiency. These are being considered with a view to implementing changes in time for the 2019/20 catalogue production.

13. An updated paper will be brought through to COG and to Management Committee on how Brexit is likely to affect ESPO. This will consider the consensus on the economic impacts, likely impact on the costs on imported products, Sterling/Euro exchange rate forecasts, potential labour shortages, and impact on wage rates. These issues to be considered in the short, medium and long term.

Staffing

14. The HR Dashboard that provides Leadership Team of a "health check" on its people analytics and the amount of work that is being progressed in the HR department as at 31st July 2018 is attached as Appendix B.

15. Mark Foote the new HR&OD Business Partner will commence on Monday 24th September 2018. Mark has paid a number of visits to ESPO since his appointment to familiarise himself with key members of the ESPO and HR Teams.

16. Further to retirements and maternity leave, the following Senior Management roles have been recruited to on a secondment basis:-

    a) Head of Commercial – Gary Ford has been seconded to this post until the 30th September 2018.

    b) Head of Procurement and Compliance – Mark Ewen has been seconded to this post until 30th September 2018.

17. Marketing continue to work with HR to brand and promote the new Values and Behaviours and the Employment Deal.

18. Sickness absence continues to decrease and as of August 2018 has reduced to 10.6. HR is working with managers to continue this downward trend by continuing with the intensive support programme.

19. HR will be delivering a further training programme around the key policies in September/October 2018. This will be a series of half day training courses for new managers.

20. The mandatory training requirements for all ESPO employees have been widely published with the expectation that all courses should be completed. This is being supported by the Learning and Training Adviser.

21. Employees without access to the Learning Hub have completed the courses either via workbooks or training courses and have been issued with the relevant certificates.

ESPO Risk and Governance Update

Health, Safety, Wellbeing and Facilities Management & Corporate Risk Register

22. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) on 18 June 2018. There are six high risks with a score of ten or greater.

23. A new risk has been added to reflect the potential impact of Amazon in the market place given recent meetings. In addition Catalogue production has been added to reflect recent acquisition and the challenges of producing multiple catalogues. Finally the integration of the Eduzone Ltd acquisition was added.

Resources Implications

24. None arising directly from this report.

Recommendation

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

Officer to Contact

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Appendices

Appendix A: Balanced Scorecard
Appendix B: July HR dashboard

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Appendix A

Management Summary Jul 18

Management Summary

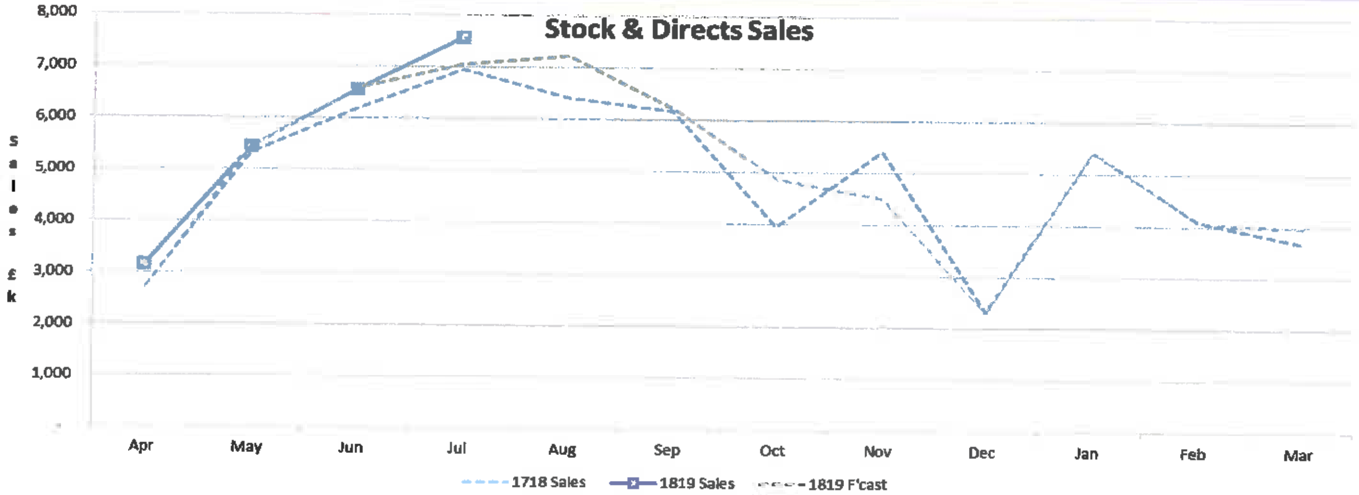
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stores Sales	£5,323,318	£5,303,256	0.4%	£16,853,881	2.8%
Direct Sales	£2,241,056	£1,737,102	29.0%	£5,860,278	8.4%
Rebate plus fee income	£738,000	£697,600	5.8%	£2,050,600	34.7%
Total Sales (Exc Gas)	£8,333,471	£7,812,904	6.7%	£25,427,799	5.4%
Stores Margin %	27.67%	28.40%	-0.73pp	28.23%	-0.57pp
Directs Margin %	8.71%	13.85%	-5.15pp	11.14%	-2.24pp
Total Gross Margin inc Consumables Cost	£2,464,325	£2,546,655	-3.2%	£8,246,330	4.6%
Total Expenditure	£1,516,448	£1,549,982	2.2%	£6,224,645	0.1%
Surplus	£947,876	£996,673	-£48,797	£2,021,685	£365,427
Net Profit Margin %	11.37%	12.76%	-1.38pp	7.95%	1.09pp

Operations cost as a proportion of sales	15.7%	16.3%	0.60pp	20.4%	0.22pp
Expenditure as a proportion of Gross Margin	61.5%	60.9%	-0.67pp	76.0%	2.96pp

Customer Order KPI's

	TY YTD	LY YTD	Var
AOV	£192.59	£185.76	£6.84
Prop of orders over £15	97.3%	97.1%	0.26pp

Graph - Sales vs. Forecast



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PERFORMANCE SCORECARD: ESPO HR SERVICE: July 2018

ESTABLISHMENT (as at reporting end date)	TARGET	ACTUAL	DoT	RAG
Staff turnover *% of employees leaving over 12 month rolling period to the average employee headcount*	10%	13.31%	↑	A
Headcount (excluding casuals)	100%	331	↑	A
No. of Vacancies	6	16	↑	A
No. of Recruitment Activities	6	5	↓	G
No. of New Starters	3	4	↓	A
No. of Leavers	3	3	↓	A
Exit Questionnaires Completed (based on 12 months rolling period)	50%	41%	↓	A
No. of Apprentices per year as % of Workforce	7	1	=	R

COMPLIANCE	TARGET	ACTUAL	DoT	RAG
Sickness Absence Management (average days lost per FTE in a 12 month rolling period)	7.5	10.9	=	R
Cost of Sickness Absence (days lost in a 12 month rolling period)	181K	278.9K	↑	R
Overdue RTW	0	13	↓	R
Number of open long term ended absences (over 20 days)	6	6	↑	A
Mandatory Training completion		TBC		

STRATEGIC HR DELIVERY	TARGET	ACTUAL	RAG
Employment Deal	31/07/18	31/07/18	G
Equalities – Baseline Data	31/09/18	31/09/18	G
New Starters Questionnaire	31/10/18	31/10/18	G
PDR Process	31/01/19	31/01/19	G
Career Pathways	30/06/19	30/06/19	G
Performance Framework	31/03/19	31/03/19	G

OPERATIONAL HR DELIVERY	TARGET	ACTUAL	DoT	RAG
No. of live attendance cases No. of employees currently monitored via informal support plan No. of employees currently monitored via formal support plan	12 9 3	19 12 7	↑	A
No. of live Disciplinary cases	1	1	=	G
No. of live capability cases	3	1	=	G
No. of live grievance/behaviour at work cases	1	1	↓	A
No. of cases progressed to attendance hearing	1	1	↓	A

ADMINISTRATIVE	TARGET	ACTUAL	DoT	RAG
No. of internal transfers/promotions processed by HR	2	2	↓	G
No. of payroll queries	5	30	↓	R
No. of HR queries	50	70	↓	R

EQUALITIES	TARGET	ACTUAL	DoT	RAG
BME	13%	11.48%	↓	A
BME 13+	15.5%	5.56%	↑	R
Disabled	5%	1.81%	↓	R
Disabled 13+	4%	0%	=	R
Female 13+	62%	22.22%	↑	R
Declared Sexual Orientation	52%	22.66%	↑	R
Declared Belief	50%	23.26%	↑	R
Declared LGBT	1.5%	0%	=	R
Under 25	4.5%	6.65%	↑	G

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