ESPO
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:	11 September 2019
My Ref	CT/ESPO
Please ask for:	Cat Tuohy
Direct Dialling	(0116) 305 5483
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 Thursday, 19 September 2019 at 10.30 am at ESPO Offices, Barnsdale Way, Grove Park, LE19 1ES.

There will be a short tour of the ESPO premises for any interested members at the beginning of the meeting.

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 19 June 2019.		(Pages 3 - 10)
2.	To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.		
3.	Declarations of interests in respect of items on this agenda.		

4.	Items referred by the Finance and Audit Subcommittee. *There are no specific items referred.*		
5.	The Rebate Journey. *There will be a presentation for this item.*	Assistant Director (Commercial)	(Pages 11 - 22)
6.	PwC External Audit Report and Opinion.	PwC	(Pages 23 - 54)
7.	Statement of Accounts and Annual Governance Statement 2018/19.	Director and Consortium Treasurer	(Pages 55 - 132)
8.	Director's Progress Update.	Director	(Pages 133 - 142)
9.	Date of Next Meeting. The next meeting of the Committee is scheduled to take place on Thursday 21 November 2019 at 10.30am at County Hall Glenfield and via Skype. Future meetings of the Management Committee are scheduled to take place at 10.30am on the following dates: Wednesday 4th March 2020 (Skype) Wednesday 24th June 2020 (Attended) Wednesday 16th September 2020 (Attended) Wednesday 25th November 2020(Skype)		
10.	Exclusion of the Public. *The public are likely to be excluded during consideration of the remaining items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).*		
11.	Supplementary Information Informing the Director's Progress Update.	Director	(Pages 143 - 160)
12.	A Review of the Food and Catering Category Portfolio.	Director	(Pages 161 - 174)
13.	Any other items which the Chairman has decided to take as urgent.		

Leicestershire County Council

Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield on Wednesday, 19 June 2019.

PRESENT

Cambridgeshire County Council
Cllr. M. Howell

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

Lincolnshire County Council
Cllr. S. Rawlins

Peterborough City Council
Cllr. J. Holdich OBE
Cllr. D. Seaton

Warwickshire County Council
Cllr. P. Birdi

Apologies

Apologies were received from Cllr. P. Butlin (Warwickshire County Council), Cllr. R. Butroid (Lincolnshire County Council), Cllr. M. Smith-Clare (Norfolk County Council) and Cllr S. Clancy (Norfolk County Council)

1. Appointment of Chairman.

Cllr. S. Rawlins was appointed Chairman for the municipal year ending April 2020.

Cllr S. Rawlins in the Chair

2. Chairman's Announcements – Cllr D. Seaton

The Chairman thanked Cllr D. Seaton for his work as Chairman of the Management Committee for the period May 2018 to May 2019. During his period of office Cllr D. Seaton had overseen the following:

- A safe and legal working environment for ESPO its staff, customers and stakeholders.
- A record growth of year on year profits; £5.1million against a target of £4.7million.
- High customer service standards that were valued by 7,000 regular education customers and a feefo rating regularly in the mid 90 percent, with ESPO maintaining gold accreditation as a result.
- ESPO Trading Ltd completing its first trading year and the successful acquisition of Eduzone Ltd, an early year’s catalogue business.

- A significant reduction of 16% in staff sickness absence days of ESPO staff

- The modernisation of ESPO's operational equipment including, a £1million investment in large good vehicles, £350,000 in modern fork lift trucks and £100,000 in racking equipment with enhanced safety features.

Members of the Committee echoed the Chairman's comments and thanks.

Cllr Seaton thanked the Chairman for her kind words and took the opportunity to thank all members and officers for their support.

3. Appointment of Vice Chairman.

Cllr. M. Howell was appointed Vice-Chairman for the municipal year ending April 2020.

4. Minutes.

The minutes of the meeting held on 27 February 2019 were taken as read, confirmed, and signed.

5. Urgent Items.

There were no urgent items for consideration.

6. Declarations of interest.

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

No declarations were made.

7. Items referred by the Finance and Audit Subcommittee.

There were three items referred by the Finance and Audit Subcommittee covered in items 11 (minute 12), 15 (minute 17) and 16 (minute 16).

8. PricewaterhouseCoopers (PwC) External Audit Plan 2018/19

The Committee considered the External Audit Plan – 2018/19 presented by Alison Breadon from PricewaterhouseCoopers (PwC). The report outlined potential areas of audit risks, the audit timetable, and the fees charged for auditing.

Arising from the discussion the Management Committee was advised as follows:

i) The increase in the Audit fee was as a result of the introduction of two new financial reporting standards. As ESPO chose to report under the CIPFA Local Government Code which required enhanced reporting requirements compared to commercial bodies thus required additional expenditure and training for the auditors involved. PwC would provide a more detailed breakdown of pricing.

ii) Eduzone and ETL did not legally require external auditing as they were small entities.

iii) This was PWC's last year as ESPO's External Auditor as the company was no longer involved in public sector audits. The process of tendering for a new auditor has commenced and the finance teams of other constituent authorities had been approached to review the tender specification and evaluate tenders. The outcome would be reported to the next Management Committee meeting.

Members thanked Alison and PwC for the work they had undertaken on behalf of ESPO so far.

RESOLVED:

a) That the External Audit Plan 2018/19 be noted;

b) That the level of materiality for reporting to the Management Committee be set at £79,000.

c) That the Director in conjunction with the Chair and Vice-Chair of ESPO Management Committee, review the External Audit Fee's proposed by PwC.

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 27 February 2019. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

Members were pleased to note that ESPO continued to overachieve in a number of areas and that the trading surplus was ahead of budget by £541,000.

Arising from discussion the following points were noted:

i) ESPO had introduced training workbooks to enable operational staff, without access to computers, to complete the mandatory training. The Senior Leadership Team would continue to monitor the training uptake by staff to ensure a higher completion was reported to Management Committee in future.

ii) ESPO undertook stock takes on a rolling basis throughout the year; and therefore adjustments at year-end tended to be small.

RESOLVED:

That the Director's report be noted.

10. 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.

11. 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 10', is filed with these minutes.

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

The Management Committee was provided a verbal update on the frameworks in place for the provision of food in workplaces and schools.

Arising from the discussion the following points were noted:

i) Schools continued to prefer hard copy catalogues to electronic versions and ESPO would continue to provide them.

ii) While recognising the trading challenges ESPO were confident in their plans to grow their share in the early year's market through Eduzone.

RESOLVED:

a) That Members note the report and updates given at the meeting;

b) That the Director in consultation with the Chair and Vice-Chair be asked to review the frameworks for the provision of food in workplaces and schools.

12. Draft Outturn 2018/19

The Committee considered an report of the Director and Consortium Treasurer outlining the draft Outturn for 2018/19. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

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

The Committee was advised that the Finance and Audit Subcommittee had considered the Draft Outturn for 2018/19 at its meeting on 8 May 2019. At that meeting the Subcommittee recommended that the operating surplus of £400,000 be allocated to Building Reserves in line with previous years, and that £300,000 be allocated to the Website Project.

RESOLVED:

a) That the draft outturn 2018/19 be approved.

b) That the allocation of £400,000 to Building Reserves be approved in line with previous years.

c) That the excess surplus of £300,000 be allocated to the Website Project.

d) That the capital programme update be noted.

13. ESPO Website Project Update.

The Committee considered a report and presentation of the Director and Consortium Treasurer seeking approval from the Management Committee to appoint a supplier to develop and implement a new website for ESPO. A copy of the report and presentation, marked ‘Agenda Item 12’, is filed with these minutes.

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

Cllr Howell and Dr Feltham CC had attended the supplier presentations and had both been impressed by Maginus Software Solutions presentation and supported their appointment as supplier for the Website Project.

All Members indicated their support for Maginus to develop and implement a new website for ESPO and were pleased by what they would offer ESPO following the report and what had been presented to them at the meeting.

ESPO had already completed a credit safe report on the company; the next step once awarded would be to seek detailed references. The final cost of the solution would be based on delivery and contract negotiations post decision and yearly running costs would be dependent on website clicks.

Members thanked officers for the presentation provided..

RESOLVED:

That Maginus Software Solutions be appointed as supplier to develop and implement a new website for ESPO subject to the satisfactory references and negotiations being completed.

14. Planning to Sustain Growth.

The Committee considered a report of the Director outlining potential commercial opportunities for growth to achieve its MTFS target of six million pounds surplus within the next four trading years. A copy of the report, marked ‘Agenda Item 13’, is filed with these minutes.

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

RESOLVED:

That the proposed commercial opportunities outlined in the report be noted and that the ESPO Senior Leadership Team be asked to explore these and bring business cases to the Committee or Shareholder group for ETL as appropriate.

15. Proposed Amendments to the Contract Procedure Rules

The Committee considered a report of the Director outlining the operation of the Contract Procedure Rules between 1 July 2017 and 30 June 2018 and seeking approval of the proposed amendments to the Contract Procedure Rules from 1 July 2019.

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:

a) That the contents of the report on the operation of the contract procedure rules between 1 July 2017 and 31 June 2018 be noted;

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

16. Internal Audit Service - Annual Report 2018/19

The Committee received an exempt report from the Consortium Treasurer on the Internal Audit Service Annual Report 2018-19. 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).

Members noted that the Finance and Audit Subcommittee had considered and approved the Internal Audit Service Annual Report 2018/19 at its meeting on 8 May 2019.

RESOLVED:

That the Internal Audit Service Annual Report for 2018/19 be noted.

17. Annual Internal Audit Plan 2019-20

The Committee received a report of the Consortium Treasurer regarding the annual internal audit plan 2019-20. A copy of the report, marked Agenda Item 15, is filed with these minutes.

Members noted that the Finance and Audit Subcommittee had considered and supported the Annual Internal Audit Plan 2019/20 at its meeting on 8 May 2019.

RESOLVED:

a) That the methodology used as a basis for developing the internal audit plan be noted.

b) That the proposed Internal Audit Plan of 2019-20 as set out in the report be approved.

18. Date of Next Meeting.

It was noted that the next meeting of the Committee would be an attended meeting and held on 19 September at 10.30am at ESPO, Grove Park.

10.30 am - 1.00 pm
19 June 2019

CHAIRMAN

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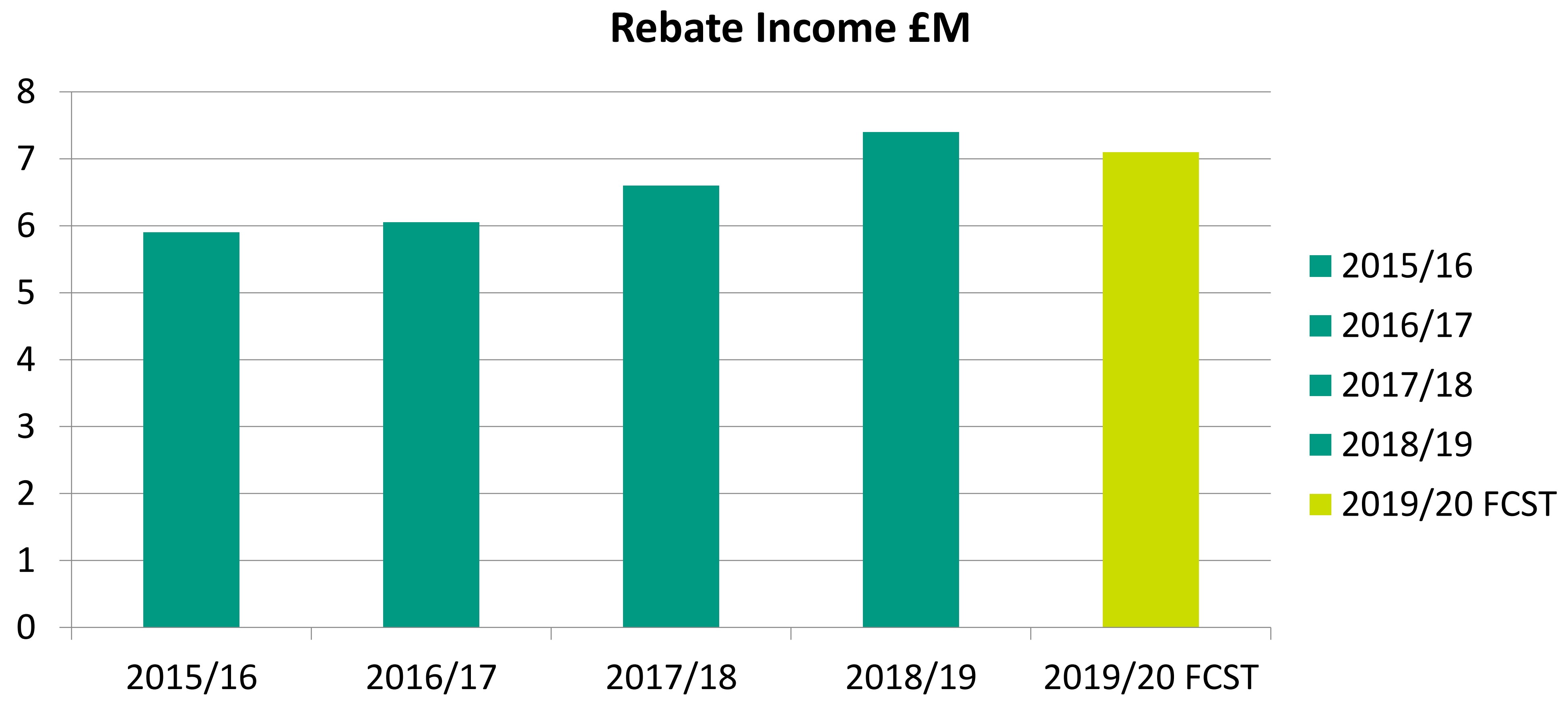
ESPO

The Rebate Journey

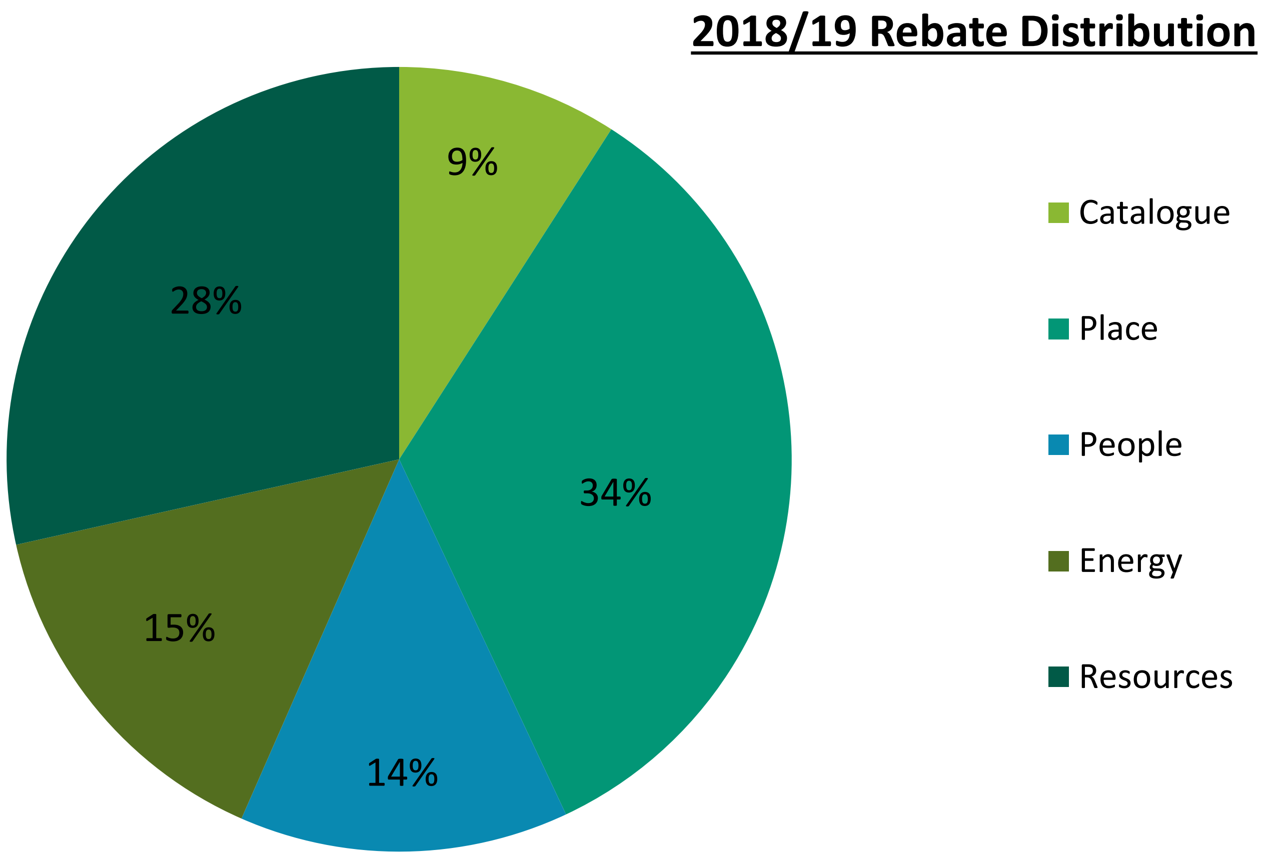
THE STORY SO FAR:

1. For over 15 years ESPO have been establishing national framework solutions
2. Today there are more than 150 live framework agreements (8 live frameworks for ETL and growing)
3. 22,000 customers (ordering points) access these agreements provided by 2,400+ suppliers
4. £2BN spend is currently under management (we market our big frameworks to big customers)
5. 85 staff within the Commercial Division, create, manage and market these frameworks

REBATE INCOME:



REBATE BREAKDOWN:



TOP REBATE CONTRIBUTORS:

TOP 10 FRAMEWORKS FOR 2018/19	INVOICE VALUE	REBATE
191 Electricity	£107,878,536	£823,514
653F MSTAR	£1,033,010,232	£268,264
263 Cleaning Services	£15,578,225	£242,996
215 Specialist Vehicle	£27,585,231	£237,895
664 Consultancy	£45,750,743	£236,115
3S Strategic HR Services	£31,964,704	£231,234
83/88/241 Food	£21,729,137	£219,740
3A Advertising Solutions	£33,386,454	£212,812
RM 3781 MFD's(RM1599)	£91,501,632	£212,577
704 Catering Services	£63,456,144	£204,624

REASONS FOR EXISITNG GROWTH:

1. Focused marketing and customer engagement strategy
2. Increased scrutiny of supplier management information
3. Introduction of a category management approach
4. Senior account management introduced for framework customers
5. Success of rebate price strategy and introduction of eTendering in 2015
6. Customer Relationship Management roles added for specific categories
7. Success of new frameworks (e.g. modular buildings)
8. Staff development and continuous training

IMMEDIATE INITIATIVES:

1. Supplier Relationship Management
2. Enhanced marketing strategy
3. Increased sales resource
4. Electricity bill validation
5. ETL frameworks
6. Strategic collaborations
7. Refining our customer offer (e.g. social value measurement)

ESPO

SWOT ANALYSIS:

Strengths

- Established portfolio
- Loyal customers
- Experienced staff
- Strong brand
- Customer focused
- Specialist Knowledge
- Robust Governance
- Talent Development
- Support to MTFS target

Weaknesses

- Operating Model
- Staff Retention
- Marketing Capacity
- CRM Database
- Digital Offer
- System Automation
- Pace of decision making

Opportunities

- ETL Frameworks
- Bill Validation
- Spending Review (2019)
- Rebate Strategy
- Collaborative work
- Commercial Deals
- Growing Portfolio

Threats

- Increased Competition
- Attraction & Retention
- New commercial models
- Customer Retention
- Austerity
- Brexit Uncertainty
- Political Landscape

ENABLERS FOR SUSTAINED GROWTH

SUMMARY:

1. People and Capability - We recruit well to our Trainee Procurement Officer (TPO) and Work Placement Roles. Such appointees learn quickly and add a lot of value when you consider the relative low cost.

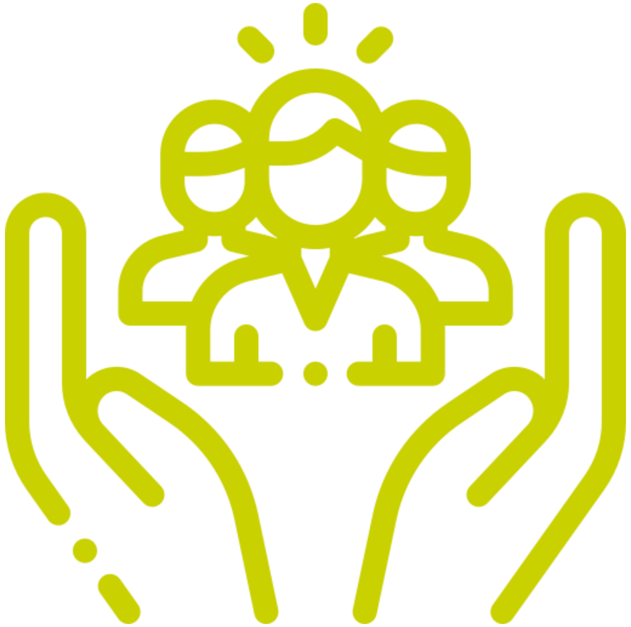
2. Continue to identify and attract new talent from the private and public sectors. Ensuring that we have the right mix of fresh blood with established DNA (corporate memory) is important
3. Ensure that we have the right structures in place and buy in to our mission and values
4. Keep processes and systems under review to ensure we get the most from our resources and invest in systems to improve efficiency

5. Invest in the function where it is appropriate to do so and where there is a ROI in the short or medium term
6. ESPO's commercial team will seek out ways to expand the framework offering within the available budget

CONTINUED…

7. ESPO's commercial team will actively seek to broaden the customer base
8. Utilise any pricing leverage available to increase rebate without loss of volume
9. Seek first mover advantage in terms of developing new and innovative frameworks (e.g. Drones for the Home Office).
10. Maximise value for money for our customers and provide a high quality and reliable procurement service that is legally compliant
11. ESPO promotes consistency, both in ways of working internally and in approaches to and engagement with, the supply market.
12. Overall the wider public benefit from ESPO being able to return surplus funds for investment in front line services by member authorities.
13. Schools and other public sector organisations rely on ESPO to provide the procurement shield necessary when acquiring goods and services.

14. Lastly, we never stop putting our customers at the front and centre of everything we do!



ESPO

Any questions?

Agenda Item 6

ESPO MANAGEMENT COMMITTEE – 19 SEPTEMBER 2019

EXTERNAL AUDIT OF THE 2018/19 FINANCIAL YEAR

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM SECRETARY

Purpose of Report

1. To report the key findings from the external audit of the 2018/19 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 2018/19 audit of ESPO's financial statements to those charged with governance prior to certifying the statement of accounts.

3. A copy of the auditor's report and the draft letter of representation from the Consortium Treasurer is attached as Appendix 1 to this report

4. As set out in the report, PwC propose to certify the financial statements with an unqualified opinion.

5. The PwC Auditor responsible for the audit will attend the Committee meeting on the 19 September to communicate any significant findings and answer any questions.

6. The auditors report is circulated to the Management Committee with the status of a "draft" and subject to approval at this meeting will be published as a final report.

7. The Statement of Accounts is presented to the September Committee meeting for approval elsewhere on the agenda for this meeting.

Recommendation

8. The Committee is asked to consider and approve the external audit of the financial statements 2018/19..

Equality and Human Rights Implications

9. None.

Background Papers

10. 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 1 - Report to those charged with governance on the audit for the year ended 31 March 2019 (ISA 260 (UK&I)) and Annual Audit Letter – 2018/19 www.pwc.co.uk

Eastern Shires Purchasing Organisation

Report to those charged with governance

Report to the Management Committee of Eastern Shires Purchasing Organisation (ESPO) on the audit for the year ended 31 March 2019 *(ISA (UK) 260)*

Government and Public Sector

September 2019

Contents

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

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

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in June 2019; we have reviewed the plan and concluded that it remains appropriate. Details of our Audit Approach are included in the following section of this report.

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

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the non-statutory Statement of Accounts following their approval by the Management Committee on 19 September 2019.

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

- completion of our going concern review;
- completion of our review of the Director's report;
- completion of our documentation, internal review and quality control procedures;
- completion procedures including subsequent events review;
- approval of the Statement of Accounts and letter of representation by the Management Committee; and
- receipt of the final signed Statement of Accounts and the management representation letter.

There are key judgements which require the Management Committee's attention – further details are set out commencing on pages 6 to 11.

The following additional reports have been issued to those charged with governance in 2018/19:

- External Audit Plan 2018/19 – presented to Management Committee in June 2019.

We have remained committed to providing you with a high quality service as we have audited your non-statutory accounts this year. We thank the Finance Team and others for their support and assistance during the course of our work and look forward to discussing our report with you on 19 September 2019.

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

Key

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

Area	Rating	Comments
Draft accounts	● Green	Your draft accounts were submitted to us in July and were of a good quality. As we would expect in any audit, we identified a small number of disclosure issues which ESPO agreed to amend within the financial statements; none of these disclosure issues were significant.
Readiness for start of audit and working papers	● Green	Working papers were ready for us at the start of the audit, provided electronically and in paper format, to enable us to select samples without delay. This helped the efficiency and smooth running of the audit, and allowed us to make a prompt and efficient start to our work on the first day we arrived on site. Supporting working papers were of a consistently good standard.
Availability and responsiveness of staff	● Green	The finance team and key members of staff were easily accessible to us during the audit and responded promptly to our audit questions and requests for information.
Significant audit and accounting issues	● Green	We identified some audit and accounting issues during the audit which are explained later in this report. We are satisfied that these are appropriately reflected and disclosed in the financial statements and will be giving an unqualified opinion on the 2018/19 financial statements.
Deficiencies in internal control systems	● **Amber**	We have not identified any significant or material deficiencies in internal control, but have identified some matters to bring to your attention later in this report.

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

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

Audit approach

Our audit approach was set in our audit plan which we presented to you in June 2019.

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

Risk	Audit approach and results of work performed
Management override of controls (Significant Risk) ISA (UK) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly. In your organisation, as the pressure to deliver a surplus increases, so does the risk of management override.	We understood and considered your internal control processes and reviewed the work of Internal Audit to consider the issues they raised and the level of assurance that they provided regarding management's ability to override controls. We performed the following procedures: • reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • sample tested the appropriateness of journal entries posted during the year on a risk basis; • reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of material misstatement due to fraud; • evaluated the business rationale underlying significant transactions; • independently confirmed ESPO's bank accounts and tested the bank and other key control account reconciliations; and • included an element of 'unpredictability' in our testing, including employing the use of our HALO software to test journal transactions in ESPO's general ledger. **We did not identify any issues to report.**

Risk	Audit approach and results of work performed
Risk of fraud in revenue and expenditure recognition (Significant Risk) Under ISA (UK) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government. There is a risk that ESPO could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue position.	We understood and considered your internal processes around relevant income and expenditure controls, and reviewed the outcomes of Internal Audit work to establish whether these are operating effectively. Our final audit procedures included: • testing the appropriateness of journals processed during the year; • evaluating accounting policies for income and expenditure recognition to ensure these are consistent with the requirements of the Code of Practice on Local Authority Accounting; • reviewing significant accounting estimates and judgements for indicators of management bias; • testing revenue and expenditure cut off at year end; • understanding how rebate income from suppliers is recognised, and testing this on a sample basis; • testing a sample of income and expenditure transactions, including accruals; and • performing analytical procedures on income and expenditure at the year-end. **We did not identify any significant issues to report.**

Intelligent scoping

In our audit plan presented to you in June 2019 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality thresholds were updated on receipt of the draft 2018/19 financial statements.

Our revised materiality levels are as follows:

	Original Plan £000	Revised £000
Overall materiality	1,590	1,728
Clearly trivial reporting de minimis	79	86

Overall materiality has been set at 2% of actual revenue for the year ended 31 March 2019.

ISA (UK) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Management Committee at its meeting in June 2019.

Significant audit and accounting matters

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

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

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

We did not identify any accounting adjustments during the audit.

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

Accounts

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

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

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

Accounting issues

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

Rebate (Framework Use Commission) revenue recognition

We have discussed with management and consider the revenue recognition policy to be appropriate but management should consider whether this income should be referred to as a 'rebate'. As there is no purchase by ESPO and the income relates to framework agreements, it is more in the nature of commission rather than rebates.

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

In 2018/19, rebate income recognised within the financial statements is approximately £7.4m compared to £6.61m in the previous year. This is relatively consistent with the increase in the previous year when around £6.03m was recognised in 2016/17.

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

We found no exceptions from our income sample tested.

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

Each year, some cash is received after ESPO closes its accounts, meaning it is recorded in the following financial year. This approach is consistent with that applied in previous years. Management estimate that approximately £245,000 – £250,000 of rebate income is recorded in the following year because it is received after the accounts were closed. Management confirmed that as these amounts are consistent from year to year, the overall impact on ESPO's surplus on a yearly basis is unlikely to be material.

The Statement of Accounts disclose the accounting policy for rebate income as follows: "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.

We have no further matters that we wish to draw to your attention.

<u>Direct sales cut-off</u>

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

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

This year, our expenditure sample testing did not identify any cut-off errors; however we are aware that these exist every year. Because ESPO does not receive confirmation from its customers at year end of how much has been ordered, no accrual is made for these transactions. We discussed this with management again this year, and acknowledge that it would be very costly and resource-intensive to request confirmations from each customer.

This is a cyclical process and the impact on ESPO's accounts is unlikely to be material because it is a small percentage of the annual income and expenditure that is ordered around year end. *The approach adopted this year is consistent with previous years and no further exceptions have been noted to bring to your attention on this matter.*

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

Pensions

There are two legal matters that are currently affecting the local government pension scheme.

- GMP Equalisation and Indexation; and
- McCloud Judgement (age discrimination).

GMP Equalisation and Indexation

There are two parts to the impact of the GMP Equalisation and Indexation developments, those who reach state pension age (SPA) between 2016 – 2021 and those post 2021. The actuary has estimated the maximum allowance of this would be up to 0.5% of liability and have made no allowance in the current calculation for this impact on the grounds of materiality.

PwC's actuarial team have concluded that the approach is reasonable and the impact (depending on the individual scheme profile) would be 0.1% of liability for those reaching SPA 2016 – 2021 and post 2021 the impact at 0.2% of liability. This is therefore consistent with the conclusions and approach of the scheme actuary and the monetary impact would be £74,000 based on PwC actuarial assessment and a maximum of £124,000 based on the scheme actuary.

We agree with management and the scheme actuary that on the grounds of materiality no adjustment should be made for this in the 2018/19 financial statements. This will also be included in our letter of representation.

McCloud Judgement

There have been two legal rulings that found that transitional schemes where members were transferred to new schemes and were age discriminatory on the grounds not objectively assessed (cases involving judges and firefighters) and has similar implications for other public sector schemes including the LGPS.

The actuary has estimated this in the 2018/19 numbers and this resulted in an additional £0.66m of past service costs and an increase in net liability to £24.8m from the initial draft numbers provided. These have been appropriately reflected in the 2018/19 financial statements.

We agree with management and the scheme actuary that this should be reflected in the 2018/19 numbers. This will also be included in our letter of representation.

Valuations

ESPO undertook a valuation of its warehouse for the 2018/19 financial statements by the LCC valuer and this has resulted in a valuation of £13.3m, an increase of £0.744m.

We have used our valuations team to review the assumptions and methodology and have concluded that the valuation is consistent with previous years and the assumptions are reasonable when compared to other national / regional benchmarks for industrial property (see also our estimates section later in this report). *We have no issues to report in relation to the valuation or accounting in the 2018/19 financial statements.*

Underlying data used for the warehouse valuation
We noted that the areas used by the valuer in the report had increased slightly compared to prior year and discussed with management whether there had been any changes / additions to the warehouse that would result in an increased area and no such changes were identified.

We were advised that this was due to the latest RICS guidance/methodology, we then subsequently assessed the impact, based on the movement from our prior year report and the attached plans and internal areas of the 2019 valuation. The financial impact was estimated at £80k, which is below our reporting level and therefore concluded no further action / investigation was required where no change was expected.

We have raised a control observation (see section on page 13) ensuring as part of the annual valuation where base data numbers have changed or not consistent with the underlying plans or prior year valuation report that the valuer should include an explicit reason why the areas have changed (if no change to warehouse configuration or additions) and whether the plans have been formally updated or not.

Misstatements and significant audit adjustments

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

We are pleased to report that our work there are no uncorrected misstatements to your draft accounts. We have discussed a limited number of adjustments noted during the audit with management at our clearance meeting on 5 September 2019, however all are below our clearly trivial level and not considered significant to raise with the committee.

Significant accounting principles and policies

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

Judgements and accounting estimates

ESPO is not required to prepare its financial statements in accordance with the CIPFA Code under a statutory obligation, but has chosen to continue to do so in 2018/19. This is consistent with the approach in 2017/18. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Valuation of non-current assets
The valuation of non-current assets is an area of significant judgement within the accounts. You have used an independent valuer from Leicestershire County Council to revalue your main office and warehouse building as at 31 March 2019. This resulted in a valuation gain of £0.644m to £13.3m. We have used our specialist valuation team to review the assumptions

used by the valuer who assessed these assumptions against property valuations data. Our specialist valuation team assessed the increase in capital value to be at the top end of the reasonable range when comparing against the index for industrial properties for the rest of the UK. Nevertheless, we have confirmed your approach is reasonable and consistent with prior year.

Pensions

The most significant judgements relate to the pension liability assumptions. We are satisfied that the actuarial assumptions used for the Local Government Pension Scheme by Hymens Robertson are overall reasonable is consistent year on year with the actuaries assessment and therefore no indication of specific bias in the current financial year .

	ESPO Assumption
Discount rate	2.4%
CPI inflation rate Rate of pension increase	2.5% 2.5%
Rate of salary increase	3.5%
Life Expectancy in years at age 65 (Pensioners) (M, F)	22.10 24.30
Life Expectancy in years at age 45 (non-pensioners) (M, F)	23.80 26.20

We do not consider the assumptions and estimates applied by the actuary and ESPO for the purposes of the financial statements to be unreasonable.

Accruals

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

Bad Debt Provision

There is an inherent level of judgement involved in calculating your bad debt provision, which is done by assessing the potential recoverability of invoices which are beyond the due date for payment. As at 31 March 2019, the bad debt provision has been calculated at £91k (compared to £77k as at 31 March 2018). We have considered the recoverability of debtors and have not identified any significant concerns in the way that you have calculated your bad debt provision.

We ask management to send us a letter of representation before we sign our audit opinion.

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

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

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

Management representations

The draft of the representation letter that we ask management to sign is attached as a separate letter to this report.

Financial standing

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

Related parties

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

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

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

Audit independence

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

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

Relationships between PwC and the Committee

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

Relationships and Investments

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

Employment of PricewaterhouseCoopers staff by the Committee

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

Business relationships

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

Services provided to the Committee

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices. We have not undertaken any non-audit services at the Committee during 2018/19.

Fees

The analysis of our audit fees for the year ended 31 March 2019 is included on page 18.

Services to Directors and Senior Management

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

Gifts and hospitality

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

Conclusion

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

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

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

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

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

Internal controls

Accounting systems and systems of internal control

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

Reporting requirements

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

No significant deficiencies in internal control were identified through our work, but the following matters are brought to your attention:

Deficiency	*Recommendation*
Detailed transaction reports: Our audit technology enables us to extract and analyse every transaction in a client's general ledger over a defined period through implementation of our HALO software. The transaction output extracted from ESPO's general ledger had several limitations, and did not include details of; - Whether a transaction had been manually posted by staff, or if it was automated within the ledger; - The date and time a transaction had been posted; - The individual who had posted a transaction in the ledger; and - Any description included in the posting, e.g: "month end payroll expenditure". We raised the same contol deficiency in previous years, because these limitations prevented us from undertaking a series of procedures in our journals testing.	Investigate the reporting capability of the general ledger software to ensure both management and auditors have access to full details of ESPO's financial transactions in the reporting period.

Land and building valuation and underlying data	
As reported earlier in the reported there was a movement in the underlying data used by the valuer in the 2019 valuation compared to 2018, although there had been no additions or modifications to the warehouse and premises. It was advised this was due to RICS guidance rather than a change to the building size/configuration via any additions in the current financial year.	Consider whether the valuer should include a summary where (and why) the areas have changed (if no change to warehouse configuration or additions have occurred during the year by ESPO) and whether the plans have been formally updated or not.

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

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

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

Risk of fraud

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

Auditors' responsibility

Our objectives are:

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

Management's responsibility

Management's responsibilities in relation to fraud are:

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

Responsibility of the Management Committee

Your responsibility as part of your governance role is:

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

Your views on fraud

In our audit plan presented to the Management Committee in June 2019 we enquired:

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

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

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Fees update

Fees update for 2018/19

Our actual fees are consistent with those agreed with the committee at the planning phase of our audit:

	2018/19 outturn (£)	2018/19 fee proposal (£)
Audit work performed:	45,750	45,750
Total	**45,750**	**45,750**

Note this does not include additional recharge for the CIPFA guidance documents purchased for the 2018/19 audit direct from CIPFA.

130610-142627-JA-UK

ESPO letterhead

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Herald Way
Castle Donington
DE74 2UZ

Dear Sirs

This representation letter is provided in connection with your audit of the non-statutory Statement of Accounts of Eastern Shires Purchasing Organisation (ESPO) (the "Organisation") for the year ended 31st March 2019 for the purpose of expressing an opinion as to whether the non-statutory financial statements give a true and fair view, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom 2018/19.

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

I confirm, at the time the director's report is approved, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Non-statutory Statement of Accounts

I have fulfilled my responsibilities for the preparation of the Consortium's non-statutory Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom 2018/19; in particular the non-statutory Statement of Accounts give a true and fair view in accordance therewith.

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

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

All events subsequent to the date of the non-statutory Statement of Accounts for which CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom 2018/19 require adjustment or disclosure have been adjusted or disclosed.

Information Provided

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

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the non-statutory Statement of Accounts such as records, documentation and other matters;

- additional information that you have requested from us for the purpose of the audit; and

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

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

Fraud and non-compliance with laws and regulations

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

I have disclosed to you:

- the results of my assessment of the risk that the non-statutory Statement of Accounts may be materially misstated as a result of fraud;

- all information in relation to fraud or suspected fraud that I am aware of and that affects the Committee and involves:

  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the non-statutory Statement of Accounts.

- all information in relation to allegations of fraud, or suspected fraud, affecting the Committee's non-statutory Statement of Accounts communicated by employees, former employees, analysts, regulators or others.

- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing non-statutory Statement of Accounts.

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

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

Related party transactions

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

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

I confirm that I have identified to you all members of key management, as defined by the Statement of Accounts and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and included their remuneration in the disclosures of officers' remuneration.

Employee Benefits

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

Contractual arrangements/agreements

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

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the non-statutory Statement of Accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Taxation

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

In connection with any tax accounting requirements, I am satisfied that:

- our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities;

- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the Committee's benefit or any other party's benefit; and

- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Committee or any associated company for whose taxation liabilities the Committee may be responsible.

Bank accounts

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

Going concern

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

Subsequent events

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

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

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

- the Committee has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Accounting in the United Kingdom 2018/19;

- measurement processes were consistently applied from year to year; the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Committee, where relevant to the accounting estimates and disclosures;

- disclosures related to accounting estimates arc complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and

- no subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Provisions

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

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

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

Use of the work of experts

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

I agree with the findings of Hymans Robertson, experts in evaluating the valuation of the pension liability, including:

(i) the consideration of the recent developments covering GMP equalisation and their conclusion that its impact would not be material;

(ii) the impact of the McCloud judgements and that it is appropriate to reflect the impact of these judgements in calculating the year end pension valuation; and

(iii) confirmation that I have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the non-statutory financial statements and underlying accounting records. I did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Retirement benefits

All significant retirement benefits that the institution is committed to providing, including any arrangements that are statutory, contractual or implicit in the institution's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.

All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with our knowledge of the business and in our view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

Relevant Rates	**2019**	**2018**
Discount rate	2.4%	2.7%
Pension increase	2.5%	2.4%
Salary increase	3.5%	3.4%
Mortality rates	**Years**	**Years**
Pensioners (Male)	22.1	22.1
Pensioners (Female)	24.3	24.3
Future Pensioners (Male)	23.8	23.8
Future Pensioners (Female)	26.2	26.2

Assets and liabilities

All known assets and liabilities including contingent liabilities, as at 31 March 2019, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at 31 March 2019 have been properly valued and that valuation incorporated into the financial statements.

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

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

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

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

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

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

Cash accounting

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

Deficiencies in internal control

The Committee has communicated to you all deficiencies in internal control of which it is aware.

As minuted by the Management Committee at its meeting on 19 September 2019.

....

(Consortium Treasurer)

For and on behalf of Eastern Shires Purchasing Organisation

Date ……………………

Appendix 1 – Related Parties and Related Party Transactions

Members and Senior Management Interests (to add)

Note 24 Extract (to add)

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ESPO MANAGEMENT COMMITTEE – 19 SEPTEMBER 2019

DRAFT STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2018/19

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 2018/19.

Background

2. Local Authority Accounting requires the organisation to approve the Statement of Accounts and Annual Governance Statement for the financial year 2018/19 and receive the Auditor's report by the end September 2019.

Draft Statement of Accounts and Annual Governance Statement 2018/19

3. The Draft Statement of Accounts and Annual Governance Statement for 2018/19 are attached as Appendix 1.

4. Price Waterhouse Coopers (PWC) commenced final audit of the accounts in July for three weeks. The draft audit opinion is considered elsewhere on the agenda. This is PWC's last year as our auditors. A full procurement exercise has been carried out to appoint a replacement. Submissions are currently with evaluators and a recommendation will be made to the Management Committee in November 2019.

Key Points

5. Value of Pension Deficit: The closing position as at 31st March 2019 was a net deficit of £24,839k (Prior Year: £18,697k). 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 and the McCloud Judgement in June 2019.

6. The inclusion of the pension liability also impacts on other parts of the accounts, including making the net assets of ESPO a deficit of £3,194k (PY: net assets a surplus of £350k)

7. Value of Land and Buildings: The Grove Park premises were valued at £13.3m (PY - £12.6m) in accordance with professional guidelines. The outstanding long term loan now stands at £5.5m (PY £6.0m)

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 deficit of £3,544k (PY Surplus £1,648k). Taken one year with another this is a net deficit of £1,896k.

   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 2018/19 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 1 – 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 2019 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 2018-2019

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 £5.1M. This enables the announcement of a £3.4M dividend distribution to members for 2018-2019.

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 2018-2019 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 2018-2019 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 2019 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 £24.2M as at 31 March 2019 compared with £18.7M as at 31 March 2018. 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.

Authorisation of Accounts:

The Statement of Accounts presents a true and fair view of the financial position of the organisation at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

Date of Authorisation:

The accounts were authorised for issue on 28 June 2019.

K. Smith
Director of ESPO

Date: 19/09/2019

C. Tambini
Consortium Treasurer

Date: 19/09/2019

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 19 September 2019.

Cllr. S. Rawlins

Chairman, ESPO Management Committee

Date: 19/09/2019

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 2018/19.

In preparing this Statement of Accounts for the year ended 31 March 2019, 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 2019.

C Tambini

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

Movement in Reserves Statement
For the year ended 31st March 2019

	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs and Renewals Reserve	Earmarked Property Maintenance Reserve	Warehouse Automation	Total usable Reserves	Unusable Reserves	Total Reserves	Note
	£000	£000	£000	£000	£000	£000	£000	£000	
Balance at 1st April 2017 Carried Forward	**4,325**	**0**	**1,639**	**2,651**	**2,500**	**11,115**	**(12,413)**	**(1,298)**	
Movement in Reserves during 2016-17									
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	(2,500)	1,052	596	1,648	
Balance at 1st April 2018 Carried Forward	**5,107**	**2,500**	**1,503**	**3,057**	**0**	**12,167**	**(11,817)**	**350**	
Movement in Reserves during 2018-19									
Total Comprehensive Income and Expenditure	(422)					(422)	(3,122)	(3,544)	
Adjustments between the accounting basis and funding basis under regulations	2,162		(812)			1,350	(1,350)		5
Net Increase/(Decrease) before Transfers to Earmarked Reserves	1,740		(812)			928	(4,472)	(3,544)	
Transfers (from)/ to Earmarked Reserves	(888)	441	38	409					6
Increase/(Decrease) in 2018-19	852	441	(774)	409	0	928	(4,472)	(3,544)	
Balance at 31st March 2019 Carried Forward	**5,959**	**2,941**	**729**	**3,466**	**0**	**13,095**	**(16,289)**	**(3,194)**	

Comprehensive Income and Expenditure Statement
For the year ended 31 March 2019

2017-18				2018-19			Notes
Gross Expenditure	Gross Income	Net (Income) Expenditure		Gross Expenditure	Gross Income	Net (Income) Expenditure	
£000	£000	£000		£000	£000	£000	
58,030	(79,588)	(21,558)	Invoiced Turnover	62,477	(86,415)	(23,938)	
58,030	(79,588)	(21,558)	Total	62,477	(86,415)	(23,938)	
11,224		11,224	Employees	12,011		12,011	
1,440		1,440	Other Employee Expenses	1,905		1,905	
720		720	Premises	756		756	
1,801		1,801	Transport	2,335		2,335	
1,495		1,495	Equipment	1,619		1,619	
250		250	Office Expenses	295		295	
1,138		1,138	Other Expenses	964		964	
4		4	Support Service Charges	349		349	
76,102	(79,588)	(3,486)	**Net Cost of Services**	82,711	(86,415)	(3,704)	
3,126	23	3,149	Other Operating expenditure	3,414	(10)	3,404	7
788	(31)	757	Financing and Investment Income and Expenditure	797	(75)	722	8
80,016	(79,596)	420	**Deficit/(Surplus) on Provision of Services**	86,922	(86,500)	422	
		(717)	Surplus on revaluation of Property, Plant and Equipment assets			(771)	9
		(1,351)	Remeasurement of the Net Defined Benefit Liability			3,893	
		(2,068)	**Other Comprehensive Expenditure and Income**			3,122	
		(1,648)	**Total Comprehensive Expenditure and Income**			**3,544**	

Balance Sheet
As at 31st March 2019

	31 March 2018	31 March 2019	Notes
	£000	£000	
Property, Plant and Equipment	13,199	14,394	9
Intangible Assets	22	9	10
Long-term Assets	13,221	14,403	
Inventories:			
Central Stores Stocks	5,187	6,487	12
Short Term Debtors	7,993	8,299	11,13
Cash and Cash Equivalents	12,021	11,087	11,14
Current Assets	25,201	25,873	
Short Term Borrowing	(656)	(647)	11
Short Term Creditors	(9,174)	(9,068)	11,15
Other Current Liabilities	(3,545)	(3,416)	15
Current Liabilities	(13,375)	(13,131)	
Long Term Borrowing	(6,000)	(5,500)	11,30
Net Pensions Liability	(18,697)	(24,839)	17
Other Long Term Liabilities	0	0	11
Long Term Liabilities	(24,697)	(30,339)	
Net Assets / (Liabilities)	350	(3,194)	
Total usable Reserves	12,167	13,095	16
Unusable Reserves	(11,817)	(16,289)	17
Total Reserves	350	(3,194)	

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

Cash Flow Statement
For the year ended 31st March 2019

2017/18		2018/19	Note
£000		£000	
420	Net (Surplus) / Deficit on the provision of services	422	
(4,142)	Adjustments on provision of services for non-cash movements	(3,964)	18
(286)	Adjustments for items included in the net (surplus) on the provision of services that are Investing and Financing activities	(184)	18
3,064	Net cash flows adjustments to operating activities	3,320	19
(944)	Total net cash flow from operating activities	(406)	
71	Investing Activities	831	20
564	Financing Activities	509	21
(309)	Net decrease / (increase) in cash and cash equivalents	934	
11,712	Cash and cash equivalents at the beginning of the reporting year	12,021	14
12,021	Cash and cash equivalents at the end of the reporting year	11,087	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 2018/19 financial year and its position at the year end of 31 March 2019. 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 2018/19 and the Service Reporting Code of Practice 2018/19, 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 satisfies the performance obligation to its customers on delivery and it is likely that economic benefits associated with the transaction will flow to ESPO. ESPO has standard payment terms agreed with its customers.

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 2018/19 accounts is based on a certificate issued by the Council's Head of Property Services Division as at 31 March 2019. 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 2019 by the Property Department of Leicestershire County Council (the organisation's servicing authority). The resulting increase in the fair value of £771,000 is reflected in the accounts.
-
- ESPO has reviewed its significant revenue streams under IFRS 15 (Revenue Recognition). This has not resulted in changes to how ESPO recognises its revenue. Further information on recognition and treatment can be found in the Accounting Policies section.

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.

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

The items in the organisation's Balance Sheet at 31 March 2019 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 2019, ESPO had a balance of sales ledger debtors of £7,498k. A review of overdue debts has identified that impairment for doubtful debts of £90,604 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 £74,980 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 2019 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 £182,659.	If 10% of the products for which excess stocks have been identified are included in the catalogue for 2018/19, the resulting reduction in stock write down would be £18,266.
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 2019 is £24.8M	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 £6.5M. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by between £1.56M and £2.59M. However, the assumptions interact in complex ways. During 2018/19, the organisation's actuaries advised that the net pension liability had increased by £3.88M 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 28 June 2019. 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 2019, 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)

2018/19		Usable Reserves			
	General Fund Balance	Earmarked Project Reserves	Earmarked Repairs and Renewals Reserve	**Total Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement;</u>					
Charges for depreciation and impairment of non current assets	418	0	0	418	(418)
Amortisation of intangible assets	13	0	0	13	(13)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10	0	0	10	(10)
Gain/loss on disposal of non current assets	(10)	0	0	(10)	10
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>					
Statutory provision for financing of capital investment (Grove Park)	(500)	0	0	(500)	500
Statutory provision for financing leased capital investment	0	0	0	0	0
Use of General Fund to finance new capital expenditure	(30)	0	0	(30)	30
Adjustments involving the Earmarked Reserves:					
Use of reserves to finance new capital expenditure	0	(68)	(744)	(812)	812
Adjustments involving the Pension Reserve Reversal of items relating to retirement benefits debited or credited to the comprehensive Income and Expenditure Statement	2,249		0	2,249	(2,249)
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	12		0	12	(12)
Total Adjustments	**2,162**	**(68)**	**(744)**	**1,350**	**(1,350)**

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

2017/18 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	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)**

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 2018/19.

	Balance at 1 April 2018	Transfers in 2018/19	Capital Transfers out 2018/19	Revenue Transfers out 2018/19	Balance at 31 March 2019
	£000	£000	£000	£000	£000
Earmarked Projects Reserve	2,500	441	0	0	2,941
Earmarked Repairs and Renewals Reserve	1,503	281	(803)	(252)	729
Earmarked Property Maintenance Reserve	3,057	423	(10)	(4)	3,466
Total	**7,060**	**1,145**	**(813)**	**(256)**	**7,136**

2017/18 Comparative Figures:

	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
Warehouse Automation	2,500	0	0	(2,500)	0
Total	**6,789**	**2,981**	**(101)**	**(2,609)**	**7,060**

7. Other Operating Expenditure

2017/18		2018/19
£000		£000
3,126	Dividend payable to member authorities	3,414
23	(Gains) / Losses on disposal of non current assets	(10)
3,149	**Total**	3,404

8. Financing and Investment Income and Expenditure

2017/18		2018/19
£000		£000
295	Interest payable and similar charges	269
(31)	Interest receivable and other similar income	(75)
493	Pension interest cost and expected return on pension assets	528
757	**Total**	722

9. Property, Plant and Equipment

Movements in Balances

Movements in 2018/19

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
Cost or Valuation	£000	£000	£000
At 1 April 2018	12,656	3,296	15,952
Additions	0	841	841
Revaluation Increase recognised in the Revaluation Reserve	13	0	13
Revaluation Increase recognised in the Capital Adjustment Account	631	0	631
Derecognition – disposals	0	(254)	(254)
At 31 March 2019	**13,300**	**3,883**	**17,183**
Accumulated Depreciation and Impairment			
At 1 April 2018	0	2,753	2,753
Depreciation charge	127	290	417
Impairment recognised in the Capital Adjustment Account	(127)	0	(127)
Derecognition – disposals	0	(254)	(254)
At 31 March 2019	**0**	**2,789**	**2,789**
Net Book Value:			
At 31 March 2019	**13,300**	**1,094**	**14,394**

9. Property, Plant and Equipment (continued)

Comparative 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 losses recognised in the Revaluation Reserve	(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**

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 2019, there were no contractual commitments in 2019/20 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	3,883	3,883
Valued at existing use value at 31 March 2019	13,300	0	13,300
Total Cost or Valuation	**13,300**	**3,883**	**17,183**

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 £13,000 charged to revenue in 2018/19 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:

	31/03/2018 Purchased Software £000	31/03/2019 Purchased Software £000
Balance at start of year:		
• Gross carrying amount	740	740
• Accumulated amortisation	(635)	(718)
Net carrying amount at start of year	105	22
Additions – Purchases	0	0
Amortisation for the year	(83)	(13)
Net carrying amount at end of year	22	9
Comprising:		
• Gross carrying amount	740	740
• Accumulated amortisation	(718)	(731)
	22	9

11. Financial Instruments

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

	Long-Term		Current	
	31 March 2018	31 March 2019	31 March 2018	31 March 2019
	£000	£000	£000	£000
Loans and Receivables: Financial assets carried at contract amounts including Cash and Cash Equivalents	0	0	20,014	19,386
Total Receivables	0	0	20,014	19,386
Borrowings: Financial Liabilities at amortised cost	6,000	5,500	656	647
Total Borrowings	6,000	5,500	656	647
Other Short Term financial Liabilities: Financial liabilities carried at contract amounts	0	0	12,268	12,170
Total Short term Liabilities	0	0	12,268	12,170

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:

	2017/18		2018/19	
	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	(292)	0	(269)	0
Bank interest payable on leased assets loans	(3)	0	0	0
Bank and short term investment interest receivable	0	31	0	75
Net (loss)/gain for the year	(295)	31	(269)	75

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 2019 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 2018		31 March 2019	
	Carry Amount	Fair Value	Carry Amount	Fair Value
Financial Liabilities – Premises loan from Leicestershire County Council	6,612	7,514	6,103	6,992
Other Long-term creditors	65	65	18	18

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:

	2017/18	2018/19
	£000	£000
Balance at start of year	5,043	5,187
Purchases	30,063	31,353
Recognised as an expense in the year	(29,776)	(29,870)
Written off balances	(143)	(183)
Balance at year end	5,187	6,487

13. Short Term Debtors

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

31 March 2018		31 March 2019
£000		£000
	Current Debtors	
1,345	Reserved Debtors	892
6,725	Sundry Debtors	7,498
(77)	Less provision for bad debts	(91)
7,993	**Total**	**8,299**
	Analysis of Bad debts Provision	
(70)	Opening Balance as at 1 April	(77)
(26)	CIES Charge for the Year	(28)
19	Less Bad Debts adjustment	14
(77)	Closing Balance as at 31 March	(91)

14. Cash and Cash Equivalents

31 March 2018		31 March 2019
£000		£000
0	Cash held by ESPO	0
200	Bank current accounts	206
11,821	Bank short-term deposit account	10,881
12,021	**Total Cash and Cash Equivalents**	**11,087**

15. Short-Term Creditors and Other Current Liabilities

31 March 2018		31 March 2019
£000		£000
	Supplier balances:	
273	• Other local authorities	311
5,351	• Other entities and individuals:	5,286
3,248	Reserved creditors and suspense accounts	2,854
451	Taxes and duties	315
3,126	Member authority dividends	3,414
270	Payroll deductions	304
12,719	**Total**	12,484

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 2019 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 2018		31 March 2019
£000		£000
134	Revaluation Reserve	147
6,839	Capital Adjustment Account	8,508
(93)	Accumulated Absences Account	(105)
(18,697)	Pensions Reserve	(24,839)
(11,817)	**Total**	(16,289)

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.

	2017/18	2018/19
	£000	£000
Balance at 1 April	128	133
Difference between the fair value depreciation and historical cost depreciation:	0	0
Revaluation gains on Property, Plant and Equipment	5	13
Balance at 31 March	133	147

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)

2017/18	Capital Adjustment Account	2018/19
£000		£000
5,963	**Balance at 1 April**	6,839
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(355)	• Charges for depreciation of non current assets	(417)
712	• Net Revaluation gains and (Impairment losses) on Property, Plant and Equipment	758
(83)	• Amortisation of intangible assets	(13)
0	• Revenue expenditure funded from capital under statute	0
(54)	• 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	0
220		328
	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	69
101	• Use of the Repairs and Renewals Earmarked Reserve to finance new capital expenditure	743
555	• Statutory provision for the financing of capital investment charged against the General Fund	500
0	• Capital Expenditure charged against the General Fund	29
656		1,341
6,839	**Balance at 31 March**	8,508

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.

2017/18 £000		2018/19 £000	
(103)	**Balance at 1 April**		(93)
103	Settlement or cancellation of accrual made at the end of the preceding year	93	
(93)	Amounts accrued at the end of the current year	(105)	
10	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(12)
(93)	**Balance at 31 March**		(105)

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.

2017/18 £000		2018/19 £000	
(18,401)	**Balance at 1 April**		(18,697)
1,350	Remeasurements of the net defined benefit liability		(3,893)
(3,238)	Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the CIES		(3,973)
1,592	Employer's pension contributions and direct payments to pensions payable in the year		1,724
(18,697)	**Balance at 31 March**		(24,839)

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

2017-18		2018-19	
£000	**Non cash Transactions:**	£000	
(438)	Depreciation of non-current assets	(430)	
10	Movement on short-term accumulating compensated absences adjustments	(12)	
(1,646)	Movement in Pension Liability	(2,249)	
(2,074)			(2,691)
	Revenue items on an accruals basis:		
144	Increase in stocks	1,300	
1,173	(Decrease) / increase in debtors	306	
(351)	Decrease / (increase) in creditors	118	
183	(Increase) / decrease in tax creditor	136	
(3,217)	(Increase) in other current liabilities	(3,133)	
(2,068)			(1,273)
(4,142)	**Total adjustment to net surplus on the provision of services for non-cash movements**		(3,964)
	Adjustments for items included in the net surplus on the provision of services that are Investing and financing activities		
(264)	Interest payable (net)	(194)	
(22)	Surplus / (loss) on disposal of non-current assets	10	
(286)		(184)	

19. Cash Flow Statement – Adjustments to Operating Activities

The cash flows for operating activities include the following items:

2017/18		2018/19
£000		£000
(31)	Interest Received	(75)
295	Interest paid	269
2,800	Dividends paid	3,126
3,064	**Net cash flows used in operating activities**	3,320

20. Cash Flow Statement – Investing Activities

2017/18		2018/19
£000		£000
102	Purchase of Property, Plant and Equipment and intangible assets	841
(31)	Proceeds from the sale of property, plant and equipment and intangible assets.	(10)
71	**Net cash flows used in investing activities**	831

21. Cash Flow Statement – Financing Activities

2017/18		2018/19
£000		£000
55	Cash payments for the reduction of outstanding finance lease liabilities	0
509	Repayment of short and long-term borrowing	509
564	**Net cash flows used in financing activities**	509

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
2018/19	£	£	£	£	£	£
Director	124,341	0	0	124,341	17,606	141,947
Assistant Director (Finance & Governance)	80,457	0	2,074	82,531	19,551	102,082
Assistant Director (Operations)	86,457	0	5,699	92,156	21,009	113,165
Assistant Director (Commercial)	64,610	0	0	64,610	15,700	80,310
	355,865	0	7,773	363,638	73,866	437,504

NOTE: The Assistant Director (Commercial) commenced employment on the 2nd July 2018.

22. Officers Remuneration continued

2017/18 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	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 22 October 2017, the Deputy Director (& Chief Commercial Officer) temporarily took over and was permanently promoted to the position of Director on the 21 December 2017.

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	2017/18	2018/19	2017/18	2018/19
	Including Severance		**Excluding Severance**	
£50,000 - £54,999	0	0	4	4
£55,000 - £59,999	0	0	3	2
£60,000 - £64,999	0	0	1	2
£65,000 - £69,999	0	0	0	1
Total	**0**	**0**	**8**	**9**

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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £000	2018/19 £000
£0 - £20,000	2	0	2	2	4	2	40	9
Total	**2**	**0**	**2**	**2**	**4**	**2**	**40**	**9**

23. External Audit Costs

Eastern Shires Purchasing Organisation incurred the following audit fees:

	2017/18	**2018/19**
	£000	£000
Fees payable to external auditors with regard to external audit services. The external auditors are PricewaterhouseCoopers LLP.	31.5	48.0

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 2018/19 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 2018/19 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 £2,219k as at 31 March 2019 (£2,258k as at 31 March 2018) 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 2018	31 March 2019
	£000	£000
Member Authorities:		
Cambridgeshire County Council	307	241
Leicestershire County Council	276	254
Lincolnshire County Council	580	586
Norfolk County Council	678	696
Peterborough City Council	113	136
Warwickshire County Council	304	306
Total	2,258	2,219

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 £31,747k for 2018/19 (£30,190k for 2017/18). The following is a breakdown by individual member authority:

Analysis of sales to member authorities.	2017/18	2018/19
	£000	£000
Member Authorities:		
Cambridgeshire County Council	5,407	5,350
Leicestershire County Council	4,756	5,007
Lincolnshire County Council	5,613	6,092
Norfolk County Council	7,616	7,795
Peterborough City Council	2,106	2,399
Warwickshire County Council	4,692	5,104
	30,190	31,747

Creditors:

Amount due to member authorities for services they provided to ESPO amounted to £311k as at 31 March 2019 (£273k at 31 March 2018) 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 2018	31 March 2019
	£000	£000
Member Authorities:		
Leicestershire County Council	273	305
Cambridgeshire County Council	0	6
	273	311

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 £1,571k for 2018/19 (£2,077k for 2017/18). The following is a breakdown by individual member authority:

Analysis of purchases from member authorities.	2017/18	2018/19
	£000	£000
Member Authorities:		
Cambridgeshire County Council	0	0
Leicestershire County Council	2,077	1,571
Warwickshire County Council	0	0
Peterborough City Council	0	0
Norfolk County Council	0	0
	2,077	1,571

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:

2017/18			2018/19	
Intangibles	Vehicles, plant and Equipment		Intangibles	Vehicles, plant and Equipment
£'000	£'000		£'000	£'000
0	0	Financed from Revenue	0	29
0	0	Financed from Earmarked Reserves	0	69
0	94	Financed from Vehicle and Equipment Reserves	0	734
0	7	Financed from Maintenance Reserves	0	9
0	101		0	841

Capital expenditure commitments:	31 March, 2018	31 March, 2019
	£000	£000
The organisation had no commitments during 2018/19 for the purchase of non-current assets in the following financial year, 2019/20.	0	0

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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 2018		31 March 2019
£000		£000
5	Vehicles, Plant and Equipment	3

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:

	2017/18	2018/19
	£000	£000
Not later than one year	71	37
Later than one year and not later than 5 years	65	18
Minimum lease payments	136	55

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

	2017/18	2018/19
	£000	£000
Minimum lease payments	136	55

27. Buildings Revaluation

During this financial year ESPO has recognised a Revaluation Gain of £0.8M in relation to its premises at Grove Park, Enderby. The premises have been valued on an existing use value basis of £13.30M by the Property Services Department of Leicestershire County Council at 31st March 2019. 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.

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 2018/19 ESPO paid an employer's contribution of £1,712k (2017/18 - £1,545k), into the Pension Fund, representing an average 20.9% 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 2018/19 these amounted to £12k (2017/18 - £47k), representing 0.2% of pensionable pay.

The IAS 19 balance sheet position as at 31 March 2019 is £24.8M (31 March 2018 – £18.7M).

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:

2017/18		2018/19
£000		£000
	Comprehensive Income and Expenditure Statement	
	Cost of Services	
	Service cost comprising:	
2,719	Current service cost	2,783
26	Past service costs	662
0	Settlements and Curtailments	0
	Financing and Investment Income and Expenditure:	
493	Net Interest expense	528
3,238	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	3,973
	Other Post Employment Benefit Charged to the Comprehensive Income and expenditure Statement	
	Remeasurement of the net defined benefit liability compromising:	
(417)	Return on planned assets (excluding the amount included in the net interest expense)	(713)
0	Actuarial gains/(losses) arising from changes in demographic assumptions	0
(933)	Actuarial gains/losses arising from changes in financial assumptions	4,594
0	Other	0
(1,350)	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	3,881
	Movement in Reserves Statement	
1,646	Reversal of net charges made to the Surplus or Deficit for the Provision of Services of post-employment benefits in accordance with the code	2,249
	Actual amount charged against the balance for Pensions in the year	
1,584	Employers contributions payable to the scheme	1,712
0	Unfunded benefits	0
1,584	Total amount charged against the Fund Balance for Pensions in the year	1,712

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 2019 was a loss of £24.8M (31 March 2018 - £18.7M).

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 2018		31 March 2019
£000		£000
(39,731)	Balance at 1 April	(42,618)
(2,745)	Current service cost	(2,783)
(1,068)	Interest cost	(1,197)
(446)	Contributions by scheme participants	(469)
	Remeasurement (gains) and losses:	
0	▪ Changes in demographic assumptions	0
941	▪ Changes in financial assumptions	(4,594)
0	▪ Other	0
	Past service costs:	
0	▪ (Losses)/Gains on curtailments	(662)
431	▪ Benefits paid	430
0	▪ Liabilities extinguished on settlements	0
(42,618)	Balance as 31 March	(51,893)

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

31 March 2018		31 March 2019
£000		£000
21,330	Balance as 1 April	23,921
575	Interest Income	669
	Remeasurement gain/(loss):	
417	▪ Return on plan assets	713
1,584	Employer contributions	1,712
446	Contributions by scheme participants	469
(431)	Benefits paid	(430)
0	Contributions in respect of unfunded benefits	0
0	(Losses) / Gains on settlements	0
23,921	Balance as 31 March	27,054

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 2018			31 March 2019	
£000	% of total assets		£000	% of total assets
0	0%	Equity Securities:		
0	0%	▪ Consumer	69	0%
0	0%	▪ Manufacturing	20	0%
0	0%	▪ Energy and Utilities	57	0%
0	0%	▪ Financial Institutions	86	0%
0	0%	▪ Health and Care	20	0%
0	0%	▪ Information Technology	23	0%
580	2%	▪ Other	196	1%
		Debt Securities:		
1,996	8%	▪ UK Government	2,291	8%
218	2%	▪ Other	350	1%
851	4%	Private Equity	1,247	5%
		Real estate:		
2,101	9%	▪ UK Property	2,022	7%
		Investment Funds and Unit Trusts		
11,269	47%	▪ Equities	10,866	40%
2,746	11%	▪ Bonds	1,143	4%
834	3%	▪ Hedge Funds	2	0%
560	2%	▪ Commodities	957	4%
1,132	5%	▪ Infrastructure	1,423	5%
708	3%	▪ Other	5,505	20%
		Derivatives		
(70)	0%	▪ Foreign Exchange	(34)	0%
995	4%	Cash and Cash equivalents	811	5%
23,921	100%		27,054	100%

The scheme history of the pension fund is as follows:

	2017/18 £000	2018/19 £000
Present Value of liabilities	(42,618)	(51,893)
Fair value of assets	23,921	27,054
Deficit	(18,697)	(24,839)

The liability shows the underlying commitment that the organisation has in the long run to pay post- employment - retirement benefits. This total liability of £24.8M 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 2018		31 March 2019
	Mortality assumptions (in years):	
	Longevity at 65 for current pensioners:	
22.1	▪ Men	22.1
24.3	▪ Women	24.3
	Longevity at 65 for future pensioners:	
23.8	▪ Men	23.8
26.2	▪ Women	26.2
2.4%	Rates of inflation	2.5%
3.4%	Rates of increases in salaries	3.5%
2.4%	Rates of increase in pensions	2.5%
2.7%	Rates for discounting scheme liabilities	2.4%
	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 2019.

	Approximate % Increase in Employer Liability	Approximate Monetary Amount
		£000
0.5% decrease in Real Discount Rate	13%	6,561
0.5% increase in the Salary Increase Rate	3%	1,356
0.5% increase in the Pension Increase Rate	10%	5,057

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 £1.8M expected contributions to the scheme in 2019/20.

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 2019 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 2019 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2019 %	Estimated maximum exposure to default and un-collectability 31 March 2019 £000	Estimated maximum exposure at 31 March 2018 £000
Bank Deposits	206				
Investments (see Note 14)	10,881				
Customers	6,938	0.66	0.30	20.5	63.1
				20.5	63.1

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 £1,874k of the balance of £7,498k was overdue at 31 March 2019 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 2018	31 March 2019
	£000	£000
Less than one month overdue	1,066	977
Between one and three months	411	531
More than three months overdue	302	366
	1,779	1,874

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 2018	Total Long -Term Outstanding at 31 March 2019
Lender:	£000	£000
• Leicestershire County Council	6,000	5,500
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	1,500	1,000

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 £109k. 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 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.
- IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on ESPO's Statement of Accounts as it has no such property.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. ESPO does not have any material transactions within the scope of the amendment.
- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the single entity accounts.

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 2018/19

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 “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 Delivering Good Governance Framework 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 customers. 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 2019 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 Delivering Good Governance Framework, and 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

<table>
<tr><th>Description of Governance Mechanisms:

Evidence and documents that demonstrate compliance / good practice</th><th>Assurances received</th></tr>
<tr><td>
• 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
</td><td>
• Registers of Interests and Gifts and Hospitality maintained by the Directorate office and are subject to review and challenge by the Servicing Authority.
• Adopted LCC Employee Code of Conduct. ‘Dignity At Work’ Policy and Procedures provides employees with examples of unacceptable behaviour, and is complemented by other HR policies.
• Constitution sets out financial rules and regulations.
• Legal advice provided a Commercial Solicitor (Leicestershire county Council Employee).
• Adopted LCC Anti-Fraud & Corruption Policy, Strategy and Procedures.
• Whistle blowing policy in place and promoted via the intranet.
• All members of staff are reminded to review all policies on a regular basis which are available via 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.
• Recruitment and Selection training is mandatory for all members of staff who are involved in the recruitment process.
• Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported.
• A new Annual Performance Review (APR) process has been launched and this will be completed on a rolling 12 month basis by the line manager and employee. This should relate to individual skills and the business priorities.
• Annual Governance Statement produced by compiling and scrutinising information from departmental Self Assessments.
• Organisational values considered during PDR, complemented by regular communications displaying the vision and mission statements.
• A full review of Values and Behaviours has been undertaken. New values and behaviours, including ethical behaviour have been agreed with the Leadership Team. These are now being communicated and shared throughout the organisation. They are also available on our website.
• 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 to understand and comply with the policies. APR’s and PDR’s should take in to account values and ethical behaviour.
• 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
</td></tr>
</table>

	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 referrals. • Appropriate HR Panels regarding disciplinary matters are set up according to the circumstance and type of complaint/matter. • ESPO's contact details are available on the website, should a member of public have any concerns. • There are plans in place for the Organisational Values to be displayed around the ESPO building. • Contract Procedure Rules are reviewed annually with Leicestershire County Council and updated accordingly. They are available on the intranet, ESPO's internal website. • Supplier Code of Conduct is in place which is available on the website. • The Chartered institute of Procurement and Supply (CIPS) standards and principles of ethical awareness applied in ESPO working practices. • Procurement and Contracts Complaints procedures are in place and available.

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**
• Annual Report • Freedom of Information Act publication scheme • ESPO website • Clear policies on consulting and involving staff in decision making • Full Public meetings with protocols observed as advised by LCC Democratic Services (observing requirements of public reporting, and private session routines for commercially sensitive subject matters) • Annual Statement of Accounts • 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 is published every year. The Statement of Accounts have been produced in line with relevant 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's external website is frequently used as a medium to inform and engage with stakeholders. Updates on the homepage inform direct users to key information. • ESPO's vision and mission statement is prominently displayed in the reception area. • The Annual Report provides information on the year's outcomes and achievements. • ESPO recognises the importance of consulting, involving and listening 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. • Alignments of key decision making to the key protocols and delegated powers are set out in the ESPO constitution. • Regular staff briefings take place via the Employee Engagement Group, Director's briefing, Heads of Service, and the Senior Officers Enablers group. • Regular Trade Union meetings address local issues and consultations which are not covered by the Servicing Authority. • The Medium Term Financial Strategy is communicated to all. • Development of ESPO's website is in progress to enable greater digital access. • Minutes are available for all Management Committee 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. • Openness and Transparency is one of ESPO five core values.

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**
• 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 the Assistant Director's plans and strategies which set out the objectives and targets in relation to ESPO's priority outcomes. • A communication strategy is in place that is based on a brand survey of our customers, allows us to provide a better service to our stakeholders. • An Annual Commercial Plan is in place which is linked to the MTFS. • Performance trends are reported through the balanced scorecard. Also trends are identified in the monthly and weekly financial reports. • The Annual Report, supported by an approved Medium Term Financial Strategy and Annual Statement of Accounts. • Industry benchmarking measures are 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. • An annual budgeting process is in place, which compares actuals to budgets. • A framework model and a National delivery model are in place to ensure fair access to services and catalogue products. • Social Value is covered in most ESPO frameworks and most recently we have entered into a partnership with the Social Value Portal. This will enable ESPO customers to use the portal for the assessment of social value through the SV Portal as and when they run further competition (and should they wish to do so). • In line with LCC policy and the public sector equality duty contained in the Equality Act 2010, ESPO undertakes equality monitoring of its staff and applies the principles set out in the Equality Strategy 2016-2020 and the requirements of the associated Action plan.

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**
• 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 for improvement • Quality of information provided which supports 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, 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 on the Servicing Authority's website. • ESPO's risk management framework is 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 a detailed scrutiny of the Corporate Risk register. This is reported quarterly. • Chief Officer Group Assurance. • External Audit Assurance. • Receiving professional advice and support as and when required to ensure that services are delivered effectively. • Regular customer surveys are undertaken, with a FEEFO (customer feedback) service rating process in place. • Head of Commercial appointed to agree balanced partnership agreements. • Procurement solutions regularly include consideration of Social Value Accounting for the procurement of services.

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**
• Induction programme • Officer training and development plans • Availability and communication of L&D activities • Performance reviews of officers • Workforce Planning • Member training and development	• New starters receive an induction. 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, soon to be changed to Annual Performance Reviews, are undertaken throughout the organisation on a regular basis and are aligned to the ESPO strategy. • A 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 are assessed against behaviours which underpin the management competency framework. • Performance management and reporting systems are in place at various levels, allowing outcomes to be cascaded and linked to individual development plans. Training and development needs are discussed at these meetings. • Bespoke training is also available via the Apprenticeship Levy. • Leadership and Training is available to managers. • Continuous benchmarking is carried out to improve reporting and performance at all levels. • Member meetings are held with the Director on a quarterly basis. Also Members are invited to ESPO to review the business and meet officers. • Introductory briefings are carried out for new Members, normally coinciding with the on-site Management Committee meeting. • ESPO has implemented a People Strategy, which covers all areas of staffing and assists in the prioritisation of resources. • ESPO has introduced a Wellbeing Strategy which provides particular focus on the health and wellbeing of staff, which includes the provision of Mental Health first Aiders, free flu vaccinations and various health awareness sessions. Regular works shops are held. • 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, via Director's briefings, team meetings,

	Senior Officers Enabler's group and the Employee Engagement group. • The 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**
• 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 • An established finance function maintains sound financial frameworks and supports delivery of the MTFS. • The Management Committee maintain an oversight of the management and stewardship of ESPO and the minutes of these meetings are available. • The Constitution sets out the “Responsibility for Functions” including the Scheme of Delegation to the Director. it also includes financial regulations and contract procedure rules, which have been further updated to reflect current delegations and procedures at ESPO. • The Monitoring Officer and CFO are responsible for ensuring an appropriate framework exists to ensure procedures are followed. • Regular meetings take place with the Chairman of the Management Committee, the Director and the Servicing Authority. • Assessment of compliance is in place with the CIPFA statement on the role of the Head of Internal Audit and the Public Sector Internal Audit Standards. • The Code of Corporate Governance and Annual Governance statement is maintained and reviewed on a regular basis. • External and internal audit assurance is provided where appropriate. • Terms of Reference for Committee and decision making protocols are detailed in the Constitution, records of decisions, with supporting materials are available. • ESPO, under the Servicing Authority’s guidelines has prepared for the new General Data Protection Regulations which came into force in May 2018. Awareness training has been provided by the Servicing Authority to enable members of staff to prepare for this. • Regular GDPR project groups are held at the Servicing Authority. • Project plans and dashboards ensure service delivery is regularly monitored. • Appropriate IT policies and procedures are in place.

	• GDPR information is available on ESPO's website.

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**
• 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 the external auditors. • ESPO's website provides a variety of information for review; an example is the Annual Report. • ESPO complies with Freedom of Information requests as appropriate. • The Service Level agreement between ESPO and Leicestershire County Council is available for review. • The 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. • The Internal Audit Service annual plan of audits provides assurance that the governance, risk management and internal control systems of ESPO are operating effectively. • All audit actions are captured and reported to the Leadership team on a quarterly basis. • All statutory deadlines are adhered to on a regular basis. • Various reviews have been undertaken by the Leicestershire County Council Transformation Team to challenge and review systems and processes. • 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 (Lifting Obligations and Lifting Equipment Regulations) 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

During the financial year 2018-19 Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO.

LCCIAS conducts its work in accordance with the Public Sector Internal Audit Standards (the PSIAS). The requirements of the PSIAS are contained in the Internal Audit Charter for ESPO mandating the purpose, authority and responsibility of the internal audit activity. Following an independent assessment, in April 2018, LCCIAS was judged to be generally conforming (the highest rating) to the PSIAS. As part of his Annual Report requirements for 2018-19 the Head of Internal Audit Service (HoIAS) conducted a self-assessment of LCCIAS' conformance to the PSIAS. The self-assessment identified that current practices continue to generally conform to the PSIAS. Whilst, a few areas have been identified where action is needed these are not considered significant deviations to the PSIAS.

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 the 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 and ICT systems and the reports are reviewed by the External Auditor when planning and conducting their audit of the financial statements. 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 Consortium Treasurer), facilitate the HoIAS in 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 2018-19 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. <u>Governance related audits</u>

   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. <u>Risk management related audits</u>

   Management has displayed a robust attitude to risk and accepted internal audit recommendations which further mitigate risk; therefore, reasonable assurance is given that risk is managed.

c. <u>Financial and ICT Control related audits</u>

   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 regularly 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 2017/18 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 2017/18, 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 seven 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 (revised April 2019) 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 Consortium 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.

<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

A senior Management Group comprising the following officers:

Leicestershire County Council (The Servicing Authority)

- Director of Law and Governance (on behalf of the ESPO Secretary)
- Director of Finance (The Consortium Treasurer)
- Head of Democratic Services
- Head of Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Assistant Director (Finance and Governance at ESPO)

reviewed the draft AGS and determined that whilst there were some areas for improvement, which can be found in the appendices, there were no significant governance issues identified during 2018/19.

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 2018/19 were sound.

Progress on issues previously identified:

The table below describes the governance issues identified during 2017/18 and the progress made against this during 2018/19. These are not considered material governance issues:

Key Improvement Area	Update on position	Carry forward for 2019/20	Lead Officer
Business Continuity Improvement in communication to members of staff. Implementation of training and scenario rehearsals.	Completed	Ongoing Training	Director

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2018/19 are sound, the assurance gathering process identified key minor corporate areas of improvement, please see attached (Appendix 1). 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.

During the review period 2018/19 no significant areas for concern were identified.

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.

As ESPO continues to trade and grow in complex and competitive market places there are a number of future governance challenges to consider:

- The uncertainty around Brexit could impact on the import and export of goods. Aside from the economic impacts there could be more, less or differing bureaucratic requirements placed upon us.
- Legislation as it develops will also be crucial in the future basis of public procurement, IR35 employment legislation or indeed the embedding of GDPR.
- Further issues for consideration will be to achieve the right mix of governance between ESPO the consortium and ESPO Trading Ltd, the former being a local government committee and the later a private trading company with a board and shareholders.
- ESPO will want to consider its workforce and the ability to ensure recruitment and retention is well managed and supports the need of a growing organisation without compromising its standards.
- Lastly the ongoing management of fleet and transport legislation including the O licence will continue to be a fundamental aspect to a well governed 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.

K. Smith
Director of ESPO

Cllr. S. Rawlins
Chairman, ESPO Management Committee

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(APPENDIX 1)

ANNUAL GOVERNANCE STATEMENT 2018/19 (SELF ASSESSMENT STATEMENT REVIEW)

PRINCIPLE	DESCRIPTION	AREAS FOR IMPROVEMENT	SCORES RECEIVED
A 1 Behaving with integrity			
1.1	Ensuring ESPO Members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.	▪ The new APR process has been adapted from LCC and will require full training and roll out to ensure it is fully embedded within ESPO.	2
B 3 Engaging stakeholders effectively			
3.3	Encouraging, collecting and evaluating the views and experiences of service users and organisations of different backgrounds including reference to future needs	▪ Wider consultation with stakeholders.	2
3.4	Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account.	▪ Wider consultation with stakeholders.	2

PRINCIPLE	DESCRIPTION	AREAS FOR IMPROVEMENT	SCORES RECEIVED
D 2 Planning interventions			
2.3	Considering and monitoring risks facing each partner when working collaboratively including shared risks.	▪ Improved monitoring of partnerships.	2
E 2 Developing the capability of ESPO's Leadership Team and all staff members			
2.6	Taking steps to consider the Leadership Team's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections.	▪ Consider 360 degree feedback.	2
2.7	Holding staff to account through regular performance reviews which take account of training or development needs.	▪ The use of APR's will need to be fully embedded during 2019 to ensure this occurs as expected.	2
F 4 Managing data			
4.1	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	▪ Increased awareness across ESPO.	2

MANAGEMENT COMMITTEE – 19 SEPTEMBER 2019

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the 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 19 June 2019.

Overall Financial Performance

2. Overall financial performance to July 2019 is outlined below:

Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	17,711.6		17,215.3		16,853.9	
DIRECT	5,730.8		5,356.3		5,860.3	
GAS	4,758.6		4,439.0		4,879.1	
CATALOGUE ADVERTISING	650.7		628.1		619.4	
REBATE INCOME	1,993.8		1,608.9		2,050.7	
MISCELLANEOUS INCOME	102.7		50.8		31.2	
TOTAL SALES	30,948.3		29,298.4		30,294.5	
TOTAL MARGIN	8,798.8		8,126.7		8,233.9	
TOTAL EXPENDITURE	6,528.5	21.1%	6,516.6	22.2%	6,093.1	20.1%
As % of Total Sales Excluding Gas		24.9%		26.2%		24.0%
TRADING SURPLUS	2,270.3	7.3%	1,610.1	5.5%	2,140.8	7.1%

- Overall trading surplus is ahead of budget by £660k and last year by £130k.

- The reason the budget at this period is lower than last year is the annual budget includes an allowance for one offs each year. The timing of these have been earlier this year than allowed for in the budget but are consistent with the prior year.

- Total sales at £30.9m are ahead of budget by £1.6m.

- Store sales £0.5m ahead of budget and £0.9m favourable to last year. The performance during peak has been strong both in terms of value and customer service. Some sales have been bought forward from August compared to last year (around 2% in the month).

- Direct sales are £0.3m ahead of budget YTD.

- Rebates are £0.4m ahead of budget and in line with last year. The key comparison is to last year. If we achieve a similar level of rebates to the prior year this will be a key driver to achieving our surplus target for the year.

- Eduzone sales are in line with last year and tracking slightly behind a revised budget. Overall profitability is in line with budget due to lower overheads.

  The balanced scorecard is attached at Appendix 1.

ESPO Operational Progress

3. In July ESPO processed £6.015m of customer orders making 17,814 customer deliveries. Warehouse picking was performed at a rate of 35 lines per hour, an improvement on the target of 32 lines per hour. The error rate detected by QA was 1% which is an improvement on the budget of 3%. The YTD average order value for stock orders was £207.20 which is £14.79 higher than this time last year. Operational and supply chain YTD costs were £3.747m against a budget of £3.633m, which is £113k above budget. Warehouse agency costs increased by £46k due to increased hours to meet the sales activity driven by peak promotions. Certain one-off training and premises costs occurred in the month which will balance out over the course of the financial year. Total operational costs as a percentage of stores sales were 21% in line with budget.

4. The peak trading period of June and July has again been successfully managed, with all customer delivery promises met on time. We have moved to a lower cost transport courier tariff and we have replaced eight old large goods vehicles which will help reduce full year maintenance costs. The vehicle renewal provision has been increased to build reserves for future fleet upgrades. We are looking to recruit a number of drivers to replace those who have or are due to retire.

5. In Customer Services the abandon call rate was 6% against a rolling target of 3%. The number of abandoned calls for customer services is slightly higher

than expected but does reflect our busiest period. It is an improvement on the same period last year. We are also looking at an additional metric which shows how long customers had to wait before having their call answered. Across Customer Services, Directs and the Catalogue Admin the teams handled 10,557 telephone calls, up 19% on May. ESPO's FEEFO customer service rating was typical for the period at 88%. Order lines processed in July by Data Entry was 351,665. Online and electronic converted orders in May were at 49.5% reflecting the increase in promotional orders which are handled manually. Direct deliveries due into the customer valued at £2.5m are being carefully managed to ensure that suppliers deliver to customers on time.

6. A new role of Customer Experience Manager has been recruited to lead ESPO's call intake and customer service teams. This role will be crucial to improving the customer journey, to anticipate customer needs and to coordinate process improvements across the organisation that delivers enhanced customer satisfaction. An Action Plan is being created in conjunction with HR to create a structure and develop a skill-set that more efficiently meets the needs of our customers. A number of vacancies have been managed through temporary contracts whilst this review is taking place.

7. The stock optimisation team maintained product availability at 97.5% with 274 lines out of 9,871 temporarily unavailable; stock value was £6.532m a reduction of £2.045m over May with a stock turn of 6.89. This reflects the high rate of stock sold during the peak period. We are managing some key suppliers to improve their performance. Stock levels will be re-built in preparation for the September 'mini-peak' period. We have been pleased with the service received in the management of our outside storage of exercise books this year and we are now looking at storage options for 2020 and beyond as part of a larger agenda.

8. Facilities management in July was scaled back to allow for the peak trading period. This comprised the first phase replacement of the warehouse gas heaters; a full service of the air conditioning units throughout the building; the refurbishment of the warehouse washroom facilities and the replacement of chairs in the canteen.

9. There were five minor accidents in July. These comprised one minor cut to finger by an agency driver, two bruises/strains to agency drivers, a back strain to a contract cleaner and a warehouse operative with a cut to the ankle. A new role of driver trainer is being recruited following a job evaluation which will be used to strengthen the delivery of H&S processes throughout the driver resource. First day induction training was provided to new starters. First-aid signage was placed above all first-aider desks to provide better visual identification. An LCC audit on health & safety is planned for September.

10. The catalogue management group has brought together teams from product management, marketing and procurement to create an integrated category plan which will inform the way in which we present products through our catalogues to our customers in 2020/21. This will enable us to select appropriate products from across the range, coordinate promotional activity

and agree supplier terms. The teams are also looking at opportunities to develop sales in the direct sales channel particularly in the sports and secondary school sector. The portfolio for 2020/21 has been drafted. This includes the Primary and Secondary main catalogue; Early Years; Eduzone; Corporate; ETL Corporate. Through this portfolio ESPO will be able to expand its offering into the corporate market. A proposed publishing timetable has been created to ensure that the new catalogue portfolio is managed in line with business requirements. The team is looking to finalise supply arrangements for exercise books for the period up to March 20201. Thereafter existing requirements elapse; the contract period has seen the category grow from £3m to £5m and became strategically relevant to our surplus achievement and thus will be part of a major review and re-procurement exercise.

Staffing

11. Sickness absence continues to be well managed and reductions in our overall levels still continue to be seen, despite covering our busiest periods of work. Managers continue to work with HR to implement appropriate support plans to help individuals return to work in a timely manner.

12. The completion rates for our mandatory training courses have now increased following a number of bespoke sessions for our warehouse staff and drivers. Further sessions will be scheduled throughout the year for a remaining number of warehouse staff so that these increases are maintained to target. The corporate induction programme has also commenced again and this ensures that our new starters are fully aware of our organisational values, and how they will be managed and supported during their employment at ESPO.

13. The staff survey has been made available for all employees to complete, and this will close during September. A summary of the outcomes will then be provided to Management Committee at the next meeting.

ESPO Risk and Governance Update

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

14. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) and the top risks are attached at Appendix 2.

Resources Implications

None arising directly from this report.

Recommendation

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

Officer to Contact

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Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract

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Appendix 1

Management Summary Jul 19

Management Summary

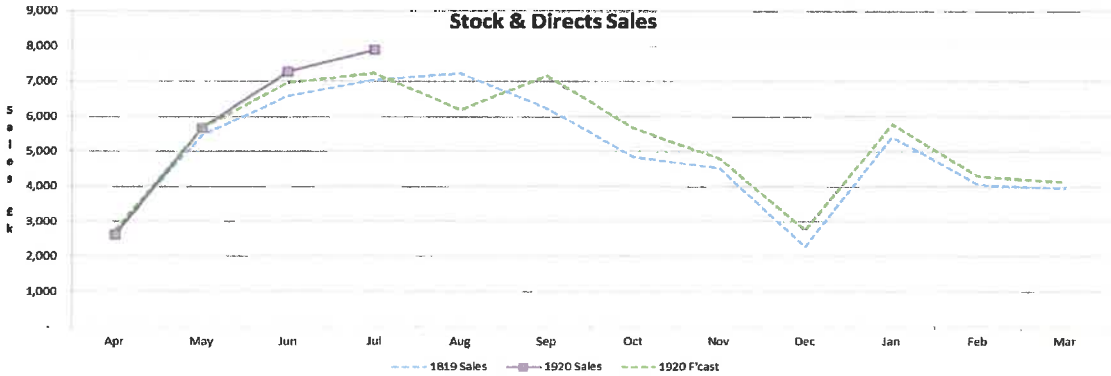
	Actual	Budget / LY	Var	YTD Actual	YTD Var
Stores Sales	£5,986,610	£5,560,847	7.7%	£17,711,606	2.9%
Direct Sales	£1,908,807	£1,660,779	14.9%	£5,730,818	7.0%
Rebate plus fee income	£784,278	£915,853	-14.4%	£1,993,878	23.9%
Total Sales (Exc Gas)	£8,759,353	£8,172,006	7.2%	£26,189,687	5.4%
Stores Margin %	28.43%	28.42%	0.01pp	29.14%	0.15pp
Directs Margin %	12.29%	13.56%	-1.27pp	13.25%	-0.31pp
Total Gross Margin inc Consumables Cost	£2,832,303	£2,783,180	1.8%	£8,798,770	8.3%
Total Expenditure	£1,666,065	£1,607,360	-3.7%	£6,528,500	-0.2%
Surplus	£1,166,238	£1,175,820	-£9,582	£2,270,270	£660,135
Net Profit Margin %	13.31%	14.39%	-1.07pp	8.67%	2.19pp
Operations cost as a proportion of sales	16.5%	16.0%	-0.53pp	21.2%	-0.33pp
Expenditure as a proportion of Gross Margin	58.8%	60.9%	2.04pp	74.2%	5.99pp

	Actual	Budget / LY	Var	YTD Actual	YTD Var
Eduzone Sales	£46,507	£49,317	-5.7%	£233,825	-13.1%

Customer Order KPI's

	TY YTD	LY YTD	Var
AOV	£207.20	£192.42	£14.79
Prop of orders over £15	97.3%	97.3%	0.01pp

Graph - Sales vs. Forecast



HR

	Actual	Target	Var
Sickness Absence Rates *	9.52	8.5	1.0
No. of Apprentices	13	7	6.0

**Average days lost per FTE in a 12 month rolling period*

Mandatory Training Completion	Actual	Target	Var
Fraud	77%	75%	2.06pp
Data Protection	62%	75%	-12.61pp
Equality & Diversity	53%	75%	-21.79pp
Health & Safety	70%	75%	-4.56pp
GDPR	53%	75%	-22.40pp

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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	Q4 Comments / Updates
25	Increased competition including Amazon & CCS	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 threat to ESPO's business model. 3. Amazon: moving deliberately into the public sector space, and focussing on education as a key area, 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.	AD Commercial	4	4	16	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. 4. Website Development. 5. Use of BESA benchmarking for ongoing market share data. 6. Continue to make frameworks easier to access. 7. Develop ETL framework offering for diversity of customer base.	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. Termly customer research and feedback 6. Competitive mapping for frameworks, including new threats from Bloom and CCS expansion. 7. Staff migration to competitors.	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. 3. Review of Customer Offer 4. MATs package 5. Review termly research. 6. Keep a close eye on developments in the market & particularly on CCS & Amazon.	AD Commercial	Sep-18	13/06/2018 Amazon added to Consequences/Impact, Controls / Actions- and Risk Indicators. 05/09/2018 Reviewed - minor edits. 04/10/2018 Reviewed - updated key controls, risk indicators and further actions. 06/03/2019 Risk and Action owner updated.Further Action/Additional Controls point 6. added. 25/03/2019 Original risk score reduced. 01/04/2019 Points 5, 6 & 7 added to List of Current Controls. Points 6 & 7 added to Risk indicators.
33	Health and Safety compensation claims and fines.	Substantial claim made as a result of a Health and Safety event. Given the nature of the warehouse environment and the customer premises we operate in etc. it is possible these claims could be substantial. This could result in ESPO being placed at substantial risk of continuing in business due to level of damages paid and reputational impact.	Director	4	4	16	Treat	1. Ownership by the Director 2. Dedicated Health and Safety Officer & Senior H&S Advisor. 3. Risk assessments, safe systems of work. 4. Incident, accident and near miss reporting recorded on Assess-net allowing for overview and enhancing ability to determine actions to mitigate future risk 5. Investment in safety equipment 6. Regular Health and Safety Committee meetings (Director to review minutes) 7. Internal Audit assessment 8. Regular Health and Safety walkabouts 9. Standard update item at monthly Leadership Team (LT) Officer at quarterly LT Risk Meetings	1. Health and Safety Walkabout actions 2. Internal Audit reports 3. Staff Surveys 4. Record of Health and Safety events and actions taken and recorded on Servicing Authority's Assess-net	4	3	12	Treat	1. 3rd Party Independent Assessment 2. Health and Safety culture embedded throughout the organisation 3. Response to public ' ' to be considered in Health and Safety planning e.g. Grenfel Towers 4. Appoint H&S advisor via LCC SLA. 5. Investment in new reach trucks with additional safety features and more driver aids. 6. Plans to recruit more permanent reach truck drivers. 7. Programme of H&S training courses implemented 8. Look to ammend policies in future	AD Operations	See Comments 1.March 2019 2.Feb 2019 3.Jan 2019	05/09/2018 Reviewed - List of current control sammended, removed point 10 (1. All LT received specific training in Health & Safety) 06/12/2018 Updated further actions. Targets: 1. Introducing mesh-decks on the pallet racking to reduce probability of push-throughs. 2. Installing CCTV into the bulk store to enable route cause analysis on incidents. Also to assist with training. 3. Programme of document control being rolled out to enable electronic retrieval of safety documents. 04/03/2019 4. Health, Safety & Wellbeing Policy document created Nov 2018. 5. ESPO H&S Policy Statement Nvo 2018. 6. H&S Action Plan - Nov 18. 7. H&S SLA with LCC Jan 2019. 8. Compliance Action Plan reviewed weekly by LT Jan 2019. 9. Monthly HS&W review with LT. 03/06/2019 Point 7 added to further actions. 10. Specification for the 8 new LGVs delivered May 19 include additional safety features. 03/09/2019 LCC audit on H&S planned for sept 2019.
51	Space constraints in the context of ESPO growth ambitions - options for mitigating short and long	1. Unable to operate safely 2. Unable to process customer orders 3. Unable to store sufficient stock 4. The exercise book supply chain will require ESPO to purchase and store stock at an earlier stage in the cycle. This is estimated at circa 2,000 pallets. There is insufficient space at the ESPO warehouse.	AD Operations	4	4	16	Treat	1. Use of peak warehouse 2. Rationalise supplier base 3. Create more efficient storage regime 4. Create more efficient picking regime 5. Outside storage of exercise books at Felixstowe 6. Assess supplier holding stock 7. Extend the mezzanine floor 8. Introduce warehouse automation 9. Assess use of modular buildings on the ESPO site. 10. Modified supply chain for exercise books with production in Poland requiring less storage space at the Leicester Warehouse 01/08/218 11. Mitigation is through pursuing an off-sit, shared-user warehousing agreement with the supplier.	1. Racked space utilisation 2. Lines picked/packed per person per hour c.f. budget 3. Overall lines picked per day c.f. budget	4	3	12	Treat	LCC discussions. Visibility at LT on a regular basis.	AD Operations	N/A	05/09/2018 List of current controls updated (point 10. added) - continuous consolidation of part pallets in the racking built into workflow 01/08/218 - new racking built on the mezzanine to accommodate Eduzone stock 01/08/2018 06/12/2018 Reviewed . Agreed temporary storage space off-site during peak trading April-July. Dec 2018 using KCS in Maidstone. 25/03/2019 Risk 73 (see obsolete tab) merged into risk 51. Original and current risk scores updated. 03/06/2019 Reviewed - no updates. 03/09/2019 Meeting with KCS in September 2019 to discuss storage facilities in 2020.

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	Q4 Comments / Updates
63	Exiting EU	1. 'Within year' increases in buying prices due to higher import costs could reduce margins – possible failure to suppress 'cost of sales' target and impact on international sourcing programme 2. Year on year buying price increases put pressure on margins/competitiveness 3. Inflation could reduce discretionary spend by customers – reduced sales 4. Extension to austerity or further cuts in public finances – impact on customer spending 5. Threat to achieving MTFS 6. Competition benchmark reset 7. Post Brexit tariffs 8. Supply chain disruption 9. Potential increase in business failures 10. Changes to EU procurement law 11. Additional LT meeting/monitoring sessions to be diarised 12. Liason @ AD level between	Director	4	4	16	Treat	1. Aim to resist price increase 'within year' 2. Mitigate increases through competition, re-sourcing, extensions 3. Support sales through targeted promotion and marketing 4. Factor in changes to the MTFS 5. Competition position on pricing and Brexit pass through 6. Strategic supplier engagement	1. Review YPO catalogue to consider market reaction to price increases 2. Seek to pass through but still observe pricing position 3. Top 30 suppliers accounting for 50% of catalogue business on Creditsafe weekly 'alert' (automatic notification of change in status)	4	3	12	Treat	1. Workforce Strategy agreed 2. Yearly commercial plan in place. 3. Understanding of where goods come from EU through supplier engagement.	Director	Ongoing	01/10/2018 reviewed -updated further controls and consequences.

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

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