



Date: 09/09/20
My Ref: CT/ESPO
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To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held on Wednesday, 16 September 2020 at 10.30 am via Microsoft Teams.

Yours faithfully,

Cat Tuohy
for Consortium Secretary

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 24 June 2020.		(Pages 3 - 8)
2. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.		
3. Declarations of interests in respect of items on this agenda.		
4. Draft Annual Governance Statement 2019/20.	Director and Consortium Treasurer	(Pages 9 - 26)
5. Director's Progress update.	Director	(Pages 27 - 36)

6. Dates of Future Meetings.

Future meetings of ESPO Management Committee will be held at 10.30am on the following dates.

Wednesday 25 November 2020

Wednesday 17 March 2021

Wednesday 23 June 2021

Wednesday 15 September 2021

Wednesday 24 November 2021

7. Exclusion of the Press and 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).

- | | | | |
|-----|----------------------------------|----------|-------------------|
| 8. | Director's Supplementary Report. | Director | (Pages 37 - 54) |
| 9. | ESPO Warehouse Business Case. | Director | (Pages 55 - 152) |
| 10. | Website Demonstration. | Director | (Pages 153 – 154) |
- There will be a video presentation for this item.
11. Any other items which the Chairman has decided to take as urgent.



Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield on Wednesday, 24 June 2020.

PRESENT

Cambridgeshire County Council

Cllr. I. Bates
Cllr. M. Howell

Peterborough City Council

Cllr. K. Holdich OBE
Cllr. D. Seaton

Leicestershire County Council

Dr. R. K. A. Feltham CC
Mr. R. J. Shepherd CC

Warwickshire County Council

Cllr. P. Butlin

Lincolnshire County Council

Cllr. A. Hagues
Cllr. S. Rawlins

Apologies

Apologies were received from Cllr. P. Birdi (Warwickshire County Council), Cllr Clancy and Cllr Smith-Clare (Norfolk County Council).

In attendance

ESPO

Mr. K. Smith – Director
Mr. C. Pitt – Assistant Director
Mr. D. Godsell – Assistant Director
Mr. M. Campbell – Assistant Director
Mr. M. Selwyn-Smith – Assistant Director

Leicestershire County Council

Mr. J. Sinnott – Consortium Secretary
Ms. L. Haslam – Director of Law and Governance
Mr. D. Keegan – Assistant Director, Strategic Finance and Property on behalf of the Consortium Treasurer
Mr. M. Seedat – Head of Democratic Services
Mr. N. Jones – Head of Internal Audit Service
Mr. M. Davis – Audit Manager
Ms. C. Tuohy – Democratic Services Officer

1. Appointment of Chairman.

Cllr. M. Howell was appointed Chairman for the municipal year ending April 2021.

(Cllr. M. Howell in the Chair)

2. Chairman's Announcements.

The Chairman thanked Cllr S. Rawlins for her work as Chair of the Management Committee for the period May 2019 to May 2020. During her period of office Cllr Rawlins had overseen the following:

- A safe and legal working environment for ESPO, its staff, customers and stakeholders in unprecedented circumstances.
- A record trading surplus of £5.4million against a target of £5million.
- High customer service standards that were valued by some 7,000 regular education customers and recognised with a Platinum Trusted Service award from Feefo. This was the highest level of accreditation, meaning ESPO had consistently delivered excellence to its customers
- Promotion of ESPO's organisational values throughout ESPO Headquarters and its corporate communications with 86% of staff survey respondents believing ESPO is a good employer.
- Continued reduction in staff sickness absence days of ESPO staff to a level 7 days, beating the corporate target of 7.5 days.
- The expansion of ESPO's catalogue portfolio to include a primary, secondary, early years, corporate and Eduzone catalogue range.

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

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

3. Appointment of Vice Chairman.

Cllr. P. Butlin was appointed Vice-Chairman for the municipal year ending April 2021.

4. Minutes.

The minutes of the meeting held on 4 March 2020 were taken as read, confirmed, and signed.

5. Urgent Items.

There were no urgent items for consideration.

6. Declarations of interests.

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

Mr. R. Shepherd CC declared a personal interest in relation to Item 10 – Director’s Supplementary Report (minute 11). As a Cabinet Member for Leicestershire County Council he had been involved in discussion about the potential use of Leicestershire County Council land for the building of the new warehouse.

7. Items referred by the Finance and Audit Subcommittee.

There were two items referred by the Finance and Audit Subcommittee, covered in items 7 – Internal Audit Service Annual Report 2019-20 (minute 8) and item 11 – Draft Outturn 2019-20 and Impact of Coronavirus on Q1 202 (minute 12).

8. Internal Audit Service Annual Report 2019-20.

The Committee received a report of the Consortium Treasurer outlining the Internal Audit Service Annual Report 2019-20. A copy of the report, marked ‘Agenda Item 7’, is filed with these minutes.

Following the Finance and Audit Subcommittee on the 20th May 2020 the Head of Internal Audit Service (HoIAS) for Leicestershire County Council had reviewed his findings in line with guidance from the Chartered Institute of Internal Auditor and concluded that ‘substantial’ assurance, the highest level of assurance, was a more appropriate rating for ESPO. This conclusion was supported by;

- a sound framework of control that operated effectively to mitigate key risks;
- no individual audit giving limited or no assurance;
- confidence in management’s attitude to resolve the occasional medium risk rated weakness in individual auditing arrangements;
- positive assurance from all completed audits on all three components of the ‘control environment’ i.e. the framework of governance, risk management and control.

As a result of COVID-19 only two planned audits had not been completed, Members were assured despite the ongoing situation working practices and standards within ESPO had remained high.

RESOLVED:

That the Internal Audit Service Annual Report 2019/20 be approved.

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 4 March 2020. A copy of the report, marked ‘Agenda Item 8’, is filed with these minutes.

The Director updated Members on ESPO's position in relation to COVID-19. Members were pleased to note ESPO's role in supporting the national Shielding of Vulnerable People programme, having been nominated as Food Hub for Leicestershire, and the work being undertaken with the local Resilience Planning Group to distribute food parcels and PPE.

As a result of COVID-19, and the reduced demand for its services, ESPO's Consortium Secretary had made the decision under delegated powers to furlough 99 members of staff, under the Government's scheme. As of Wednesday 24th June 34 members of staff remained furloughed, but it was expected that they would be taken off the furlough scheme by September.

The Director took the opportunity to thank all ESPO staff who had been working hard to keep ESPO running and were responding every day to new emerging and changing priorities. This sentiment was echoed by all members of the Committee.

RESOLVED:

That the contents of the report including action taken by the Consortium Secretary to furlough staff under delegated powers be noted.

10. Exclusion of the Press and Public.

RESOLVED:

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act:

11. Director's Supplementary Report.

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

Mr. R. Shepherd CC declared a personal interest arising from the discussion he had had as Cabinet Member at Leicestershire County Council regarding the ESPO Warehouse.

Arising from the discussion the following points were noted:-

- i) The Director informed Members that the supply of non-clinical PPE had improved, and that ESPO prioritised supply to schools as they re-opened following Government guidance.
- ii) The Website Project remained on track and would be demonstrated at the next Management Committee meeting.
- iii) Members were pleased that ESPO's Feefo rating (an independent customer satisfaction review provider) had remained above 90% during COVID-19.

iv) Arrangements were being made to celebrate ESPO's 40 year anniversary in 2021.

RESOLVED:

That the report be noted.

12. Draft Outturn 2019/20 and Impact of Coronavirus on Q1 2020/21.

The Committee considered an exempt joint report of the Director and Consortium Treasurer concerning the draft outturn 2019/20 and the impact of the Coronavirus on Q1 2020/21. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

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

Arising from the discussion the following points were noted:-

- i) A detailed update on the impact of COVID-19 on ESPO and its draft outturn was given. ESPO were preparing for changing demand across its customer base, and were looking at how they could continue to supply them appropriately.
- ii) Members supported the proposal to continue to allocate £400,000 annually to building reserves, to support future building replacements at end of life.
- iii) Consideration of the timing of the dividend payment for 2019/20 would be given at the September Management Committee when more detail could be provided to Members. Members would receive financial updates from the Director in the interim.

The Director reported that that this would be the last meeting that Clive Pitt would be attending as he would be retiring from his post as Assistant Director of ESPO. The Chairman and Members thanked Clive for his enormous contribution to the success of ESPO and wished him well for the future.

RESOLVED:

- a) That the 2019/20 provisional revenue and capital outturn, and impact of COVID-19 on Q1 2020/21 be noted.
- b) The £400,000 allocation to Building Reserves be approved in line with previous years.
- c) That the timing of payment of the dividend for 2019/20 be considered at the Autumn Management Committee.

13. LGA Truck Cartel Litigation.

The Committee considered an exempt report of the Legal Advisor to the Servicing Authority the purpose of which was to set out information on the litigation to be undertaken by the Local Government Association (LGA) in relation to the truck cartel. A copy of the report. Marked 'Agenda Item 12', is filed with these minutes.

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

The Legal Advisor to the Servicing Authority set out the possible risks that might arise from taking part in such litigation, as well as the possible settlement return. After a detailed discussion it was moved that “ESPO participate in the Local Government Association’s Truck Cartel Litigation”.

Five members voted for the motion and two against.

The motion was carried.

RESOLVED:

That ESPO’s participation in the LGA’s Truck Cartel Litigation be approved.

14. Date of Next Meeting.

It was noted that the next meeting of the Committee would be held on 16 September 2020 at 10.30am.

10.30-12.07
24 June 2020

CHAIRMAN

ESPO MANAGEMENT COMMITTEE – 16 SEPTEMBER 2020

DRAFT ANNUAL GOVERNANCE STATEMENT 2019/20

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the Annual Governance Statement (AGS) for the financial year 2019/20.
2. Traditionally the draft Statement of Accounts is presented at the same time as the AGS. However, due to COVID-19 ESPO's external auditors, Grant Thornton, only started their audit work on 1st September and plan to complete their work and give their audit opinion by the end of November 2020. Consequently, the Statement of Accounts will be presented at a future Management Committee meeting.

Background

3. The AGS has been prepared following the Code of Practice on Local Authority Accounting in the UK 2019/20 (the Code) which states that the AGS should relate to the governance system as it applied to the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed, by the responsible financial officer, should also be reported. Therefore, in the event of the above occurring, the AGS presented as in the Appendix would change at the time of its final publication.

Outcomes of Process for Preparing Annual Governance Statement

4. Accounts and Audit Regulations 2015 require ESPO to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an Annual Governance Statement (AGS). ESPO has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework' (2016) and ESPO has assessed its governance system against the seven core principles of the Framework as shown below:

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

PRINCIPLE B: Ensuring openness and comprehensive stakeholder engagement.

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

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

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

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

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

5. For each of the seven core principles the following have been considered:
 - Governance Mechanisms
 - Assurances Received
 - Weaknesses identified
6. To ensure this AGS presents an accurate picture of governance arrangements currently in place, each leadership team member was required to complete a 'Governance Self-Assessment' form, on which they outlined and assessed the measures in place in their department to ensure compliance (or otherwise) with ESPO's Code of Corporate Governance. 'Areas of Improvement' which were identified will be incorporated into an action plan to be implemented during the course of the next financial year. These 'Areas of Improvement' are listed in the report Appendix.
7. During their review of the 2019/20 draft AGS; the senior management group identified one significant governance issue, which is the risk of ESPO not achieving its financial budget surplus as a result of the COVID-19 crisis. Details of the organisation's response to the coronavirus (covid-19) is also outlined in a separate section of the report.
8. The AGS contains the Head of Internal Audit Service (HoIAS) opinion on ESPO's control environment i.e. its framework of governance, risk management and control. For 2019-20, the HoIAS gave substantial assurance that the control environment has remained adequate and effective.

Resources Implications

No specific implications.

Recommendation

The Committee is requested to:

- a. consider the draft Annual Governance Statement (Appendix) and indicate whether it consistent with the Committee's own perspective on internal control within ESPO.
- b. Note that final approval will be sought when the Statement of Accounts are presented at a future Management Committee meeting.

Equal Opportunities Implications

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)

Appendix

Appendix - Draft Annual Governance Statement

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Draft Annual Governance Statement 2019/20

1. INTRODUCTION

The Consortium Treasurer is responsible for the preparation of the Consortium's Statement of Accounts in accordance with proper accounting practices. Historically, the Consortium has chosen to prepare its annual financial statements in accordance with the CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom (the most recent version being 2018/19).

However, ESPO, on its own, is not a Local Authority and therefore, has no requirement to account under the CIPFA Code of Practice. This gives ESPO a degree of flexibility.

The 2019/20 financial statements for ESPO have been prepared under the Financial Reporting Standard applicable in the UK (FRS102) using the UK GAAP Framework, as agreed by Management Committee in November 2019, and are still subject to audit. However, the Annual Governance Statement (AGS) for 2019/20 has been prepared following the CIPFA/LASAAC Code of Practice in Local Authority Accounting.

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. The AGS encompasses the governance system that applied in both ESPO and any significant group entities (e.g. ESPO Trading Limited (ETL), Eduzone) during the financial year being reported.

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.

In anticipation of the potential disruption to relevant authorities caused by the spread of coronavirus (COVID -19), The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 amended the 2015 Regulations to extend the deadlines for relevant organisations to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year beginning on 1st April 2019. The draft AGS 2019/20 will be published in September 2020.

2. WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The Organisation's governance framework comprises the systems and processes, cultures and values by which the Organisation is directed and controlled. 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 CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (the Framework)', sets the standard for local authority governance in the UK.

The Framework helps local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach.

The overall aim 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 for service users and communities.

3. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how the Organisation's management arrangements are set up to meet the principles of good governance and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any developments required. The main aim of the AGS is to provide the reader with confidence that the Organisation has an effective system of internal control that manages risks 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 revised CIPFA/SOLACE Framework requires Organisations to review arrangements against their Local Code of Corporate Governance to ensure it is consistent with the seven core principles of the Framework.

- The principles contained in the Framework have been applied to the preparation of the AGS for the financial year 2019/20.
- The 2019/20 AGS has been constructed by undertaking: -
- A review of the effectiveness of the system of internal control
- Reviewing other forms of assurance
- Reviewing the Organisations response to (and planned recovery from) the COVID-19 virus

4. REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

There is a statutory requirement in England, for organisations to ensure that they have a sound system of internal control which: -

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the organisation is effective; and
- (c) includes effective arrangements for the management of risk.

The organisation must (each financial year): -

- (a) conduct a review of the effectiveness of the system of internal control, and,
- (b) prepare an annual governance statement;

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.

To ensure the 2019/20 AGS presents an accurate picture of governance arrangements for the whole organisation, each Assistant Director and the Director was required to complete a 'self-assessment', which provided details of the measures in place within their Service /Division to ensure conformance (or otherwise) with the seven core principles of the Framework.

The self-assessments contained a set of conformance statements under each core principle, which required a corresponding score of 1, 2 or 3 to be recorded (1=good, 2= Some weaknesses/areas for improvement, 3= Key weaknesses/many areas for improvement), based on the criteria – Refer to the Appendix.

5. OTHER FORMS OF ASSURANCE

Local 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. The local code was last formally reviewed in 2017 and will be formally reviewed again in the financial year 2020-2021.

Internal Audit Service

During the financial year 2019-2020 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 2019-20 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 2019-2020 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 HoIAS concluded: -

HoIAS opinion

Prior to the onset of the coronavirus, ESPO's control environment was in a steady state. The build-up and immediate impact of the virus was significant, adverse in nature and unique in character. However, no significant governance, risk management internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective.

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.

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 (RMP&S) is reviewed regularly and approved by the Management Committee. The RMP&S will be reviewed in-line with the yearly MTFs review, which is to be taken to the Finance & Audit Subcommittee in February 2021. In addition, ESPO's risk strategy will be subject to an annual review. 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 2018/19 external audit was undertaken by PwC. The 2019/20 external audit will be undertaken by Grant Thornton. The selection of Grant Thornton was done independently of ESPO's management team and an evaluation was undertaken with partner authorities and Grant Thornton were approved by Management Committee in November 2019.

ESPO's external auditors gave detailed findings from their 2018/19 audit work of ESPO, to those charged with governance through:

A 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 2018/19 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 2018/19 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 2018/19, 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;

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

CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government (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.

The Role of the Head of Internal Audit

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.

The Role of the Consortium Secretary

The Consortium Secretary has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful.
- ensuring that decisions taken are in accordance with ESPO's budget and its 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.

Commercial Arrangements

ESPO Trading Ltd: ESPO's power to trade is restricted to a limited number of public bodies and this market is shrinking. The establishment of a trading company allows ESPO (Trading) to trade with other organisations which are in the spirit of public bodies but not described as such in the 1970 Act – e.g. Housing Associations, Charities and Voluntary Organisations. The Trading is governed under the Companies Act 2006, its Articles of Association and Shareholder Agreement.

On 4th March 2020 following a review of the governance arrangements of ESPO Trading Limited and having regard to legal advice from external solicitors, Anthony Collins, the Management Committee agreed to streamline governance arrangements. The new arrangements still ensure that the Management Committee receives regular financial and business information to allow its oversight of ESPO Trading Limited's contribution to ESPO's wider business objectives.

Eduzone was a private limited company that supplied Early Years educational products and Early Years furniture to schools, nurseries and child minders. ESPO acquired the company following the necessary due diligence in 2018. Eduzone has now been incorporated into ESPO Trading Limited.

6. THE ORGANISATIONS RESPONSE TO THE CORONAVIRUS (COVID-19)

Towards the end of 2019/20, a global pandemic was declared in connection with the COVID-19 virus. Emergency responses were triggered, and lockdown measures were introduced in the UK from 23 March 2020. 61

ESPO'S planning for COVID-19 began in early February. Business continuity plans were implemented across the organisation.

COVID-19 is already having a significant adverse effect on the economy. Recognising the significant uncertainty, it is estimated that ESPO will face a significant financial gap in the current financial year. These financial implications will possibly continue beyond the current financial year adding to the financial gap identified in the Medium-Term Financial Strategy. ESPO is taking a number of measures to ensure the impact on the financial position is minimised where possible in the immediate crisis period and medium-term recovery.

ESPO Management Committee had previously agreed to conduct certain meetings virtually and had set out a protocol for decision making in such circumstances. This placed ESPO in a good position when, as a result of the Coronavirus, attended meetings ceased. ESPO's previously scheduled meetings were able to continue and regulations made under the Coronavirus Act (2020) allowed the Committee to take decisions as it would have in attended meetings. Where necessary all meetings were live-streamed and as such were fully compliant with the Coronavirus Regulations and enabled the maintenance of good governance, principles of openness and accountability.

The constitutional arrangements allowed for urgent decisions to be taken by the Consortium Secretary in consultation with the Chairman. As stated above with the exception of the urgent decision taken regarding furlough all other decisions were taken by the appropriate bodies using virtual meetings. Briefings of the Constituent Authorities by the Director and the Senior Leadership Team also continued using virtual meetings.

Demands on IT systems and staff have been considerable, and most office-based staff will continue to work from home for the foreseeable future. Regular COVID-19 senior manager briefings continue to be provided as well as health and wellbeing support across the organisation,

informed by an organisation wide survey. Work has also been carried out relating to returning to the workplace (recovery) and PPE staff risk assessments.

The organisation never stopped delivering its services during the national lockdown period. In order to achieve this the organisation had to introduce a host of new working practices or adjustments to existing practices, such as:-

- A zonal-picking protocol in the warehouse to keep picking staff in specific areas to avoid compromising social distancing guidelines.
- Warehouse shifts have been modified to end 15 minutes earlier to avoid congestion in corridors and locker rooms during shift changeover.
- Drivers are issued with full PPE and hand sanitiser and are not requesting customer signatures when making deliveries.
- Covid-19 specific risk assessments, covering home working and working from site, were disseminated to all members of staff. Staff then had individual conversations with managers and confirmation emails/signature obtained from staff. These risk assessments utilised LCC Corporate Health and Safety templates and guidance and were made specific to ESPO's operations.
- Building occupancy calculations were completed, based on Covid-19 social distancing rules, to understand how many staff could return to on-site work.

Recovery from COVID-19 disruption centres on the return to work of furloughed staff and the auditing of the organisations premises to be COVID-19 compliant. A Covid-19 return-to-site induction template has been created (one for offices, one for warehouse due to different roles) and this induction template will be used to reiterate the key COVID-19 workplace rules to returning staff. Service plans have also been produced by each head of service at ESPO. The organisation's financial recovery is detailed in a 10 year Long-Term Financial Strategy (LTFS) that will be presented for approval this autumn.

Some areas in the county urban conurbations surrounding the city of Leicester were made subject to an extended period of local restrictions by regulations^[1] which came into force on 4th July to be reviewed on 18th July. The restrictions are capable of enduring for a period of 6 months subject to review by the Secretary of state every 14 days. The restrictions affect businesses to require closure, limit the right of residents to stay away from home and limit gatherings. The restrictions will delay the recovery process in the affected areas. Similar local restrictions could be applied to other parts of the country at any time, with little or no notice, and the business needs to remain flexible and vigilant in order to be able to continue to deliver service to such affected areas.

7.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)
- Assistant Director - Strategic Finance & Property (on behalf of the Consortium Treasurer)
- Head of Democratic Services

^[1] The Health Protection (Coronavirus, Restrictions) (Leicester) Regulations 2020

- Head of Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Assistant Director (Finance)

reviewed the draft AGS and determined that there were some areas for improvement, which can be found in the Appendix. There is one significant governance issue identified during 2019/2020, which is the risk of ESPO not achieving its financial budget surplus as a result of the COVID-19 crisis.

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 2019/2020 were sound.

Progress on issues previously identified:

The table below describes the governance issues identified during 2018/19 and the progress made against this during 2019/20. These are not considered material governance issues:

Key Improvement Area	Update on position	Carry forward for 2020/21	Lead Officer
Business Continuity. Improvement in communication to members of staff. Implementation of training and scenario rehearsal in 2019/20.	Training Completed in 2019/20	Not Applicable	Not Applicable

Whilst the review of effectiveness concluded ESPO’s overall financial management and corporate governance arrangements during 2019/2020 are sound, the assurance gathering process identified key minor corporate areas of improvement, please see Appendix. 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 2019/20 the only significant issue identified was the risk to the achievement of the budgeted surplus in the financial year 2020/21 as a result of the COVID-19 crisis.

8. FUTURE CHALLENGES

ESPO continues to face significant challenges in these times. 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:

- Worsening national finances, as a result of COVID-19, are likely to have a negative impact on public spending which could result in a reduced demand for ESPO's products from its core customers.
- Future challenges from changing customer product buying patterns. For example, some schools moving to "electronic classrooms" where paper exercise books are replaced with electronic devices.
- The uncertainty around Brexit could impact the import and export of goods. Furthermore, the ending of "Freedom of Movement" will reduce the available supply of EU labour.
- 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 latter 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.
- Covid -19 and impact on business. ESPO's Leadership Team, using guidelines and best practice from the Leicestershire County Council (LCC) recovery team, have produced a health & safety document specifically on the Covid-19 risk. The ESPO building has been signed-off as being Covid secure.
- Cyber Risks. This is covered under the IT section of the Corporate Risk Register.

2

9. 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. M Howell
Chairman, ESPO Management Committee

AREAS FOR FURTHER DEVELOPMENT IN 2020-21

The AGS self-assessments contained a set of conformance statements under each core principle and related sub-principles as outlined in the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016), which required a corresponding score of 1, 2 or 3 to be recorded, The outcome of the review of the self-assessments is summarised in the table below.

Annual Review of the Effectiveness of the Council's Governance Framework against the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)	
Core Principles of the Framework	Action to Develop Areas Further
<p>Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<ul style="list-style-type: none"> • Review the operation of the code of conduct/ethical standards for suppliers. • Development of professional training for procurement teams which addresses ethical issues. • Elected members are subject to a code of conduct; the code is being reviewed and a new code is expected. The members will require training on the code when introduced. • The LCC employee code of conduct is being reviewed, employees need to be informed and the principles embedded.
<p>Principle B: Ensuring openness and comprehensive stakeholder engagement</p>	<ul style="list-style-type: none"> • Ensure that, as the organisation develops, senior job descriptions remain current (i.e. for Heads of Service and ADs). • Engagement with customers: consult with customers to understand what they value about the organisation and what they expect from the organisation in the future.
<p>Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefit</p>	<ul style="list-style-type: none"> • Define a target, and an accompanying strategy, to reduce carbon emissions.
<p>Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	<ul style="list-style-type: none"> • Use of owner authorities to do assurance reports on major investment decisions, thus providing decision makers with further objective analysis to support decision making.
<p>Principle E. Developing the entity's capacity including the capability of its leadership and the individuals within it</p>	<ul style="list-style-type: none"> • Consider the use of executive coaching/mentoring to maintain development of the organisation's leaders. • Providing advice to staff, and communicating effectively with them, in order to support remote working. • The LCC people strategy is being refreshed and the changes need to be brought to employees' attention. • Undertake a review the organisation's approach to attendance management and wellbeing.

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MANAGEMENT COMMITTEE – 16 SEPTEMBER 2020

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Report

- The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 24 June 2020.

Overall Financial Performance

- Overall financial performance to July 2020 is outlined below:

Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	15,453.9		18,800.0		17,735.3	
DIRECT	4,042.7		6,289.9		5,739.8	
GAS	3,922.0		3,628.9		4,758.6	
CATALOGUE ADVERTISING	643.1		616.9		650.7	
REBATE INCOME	2,966.5		2,507.8		1,993.8	
MISCELLANEOUS INCOME	2.8		51.3		94.2	
TOTAL SALES	27,031.0		31,894.9		30,972.5	
TOTAL MARGIN	9,026.9		9,780.6		8,799.2	
TOTAL EXPENDITURE	6,477.9	24.0%	7,004.7	22.0%	6,539.7	21.1%
As % of Total Sales Excluding Gas		28.0%		24.8%		24.9%
TRADING SURPLUS	2,549.0	9.4%	2,775.8	8.7%	2,259.6	7.3%

3. Catalogue sales YTD July were £19.5m which was 22% below budget and 17% below last year. The shortfall to budget was more pronounced on direct sales (-36%) than on stores sales (-18%). Direct-sales products are larger items (e.g. furniture etc) and with schools and business being closed they have held-off purchasing these “bigger-ticket” items.
4. At the start of the Covid-19 outbreak sales were devastated, with catalogue sales in April being 70% below budget. Since then sales have started to recover somewhat with catalogue sales in July being -5% below budget and down -22% July YTD.
5. Rebate income July YTD has been strong at just under £3m. This is 18% ahead of budget and 49% ahead of this time last year. The full year outlook for rebate income remains in-line with budget, so the increased rebate income in July YTD is effectively the result of timing differences and is expected to reverse in later periods.
6. The gross margin % in catalogue sales has been slightly ahead of budget and last year but, despite this, the shortfall in overall catalogue sales has resulted in a £1.2m shortfall in catalogue gross margin compared to budget. This has been tempered somewhat by the approx. £450k extra rebate margin versus budget.
7. Opex costs July YTD at £6.5m were £0.5m below budget. This was due to tight cost control, lower sales activity than budgeted and furloughed staff (July YTD furlough payments credited to the P&L was £0.2m). All staff should be back from furlough by 1 September 2020.
8. The effect of all of the above is that the trading surplus for July YTD was £2.5m, this was below budget of £2.8m but ahead of last year’s figure of £2.3m.
9. The full-year re-forecast of ESPOs P&L presented at the June Management Committee for 2020/21 indicated a full year surplus in the range of £3.5 to £4.0m. One underlying assumption behind this forecast was that sales would recover to around budgeted levels from July onwards. Catalogue sales in the month of July were -5% below budget. The upcoming few months traditionally have seasonally higher sales and the outcome of this will have a large effect on the full-year outturn. Consequently, given the continued risks and uncertainties, we feel it is imprudent to speculate on the likely full-year outturn. We plan to give further guidance towards the end of the year.
10. Looking to the future, beyond Covid-19, we have developed a Long-Term Financial Strategy (LTFS) to cover the next ten years which contains details of planned capital investment and a longer-term view to enable continued growth at ESPO. This LTFS is also the basis upon which a proposal to invest £6m in additional warehouse space has been made.
11. The balanced scorecard is attached at Appendix A.

ESPO Operational Progress

12. In July ESPO continued to operate against the backdrop of Covid-19. The majority of office-based staff continued to work from home with some being furloughed. This enabled ESPO's offices to be adapted to allow customer service staff to occupy the offices in compliance with the two-metre distancing protocol. Stores activity continued to increase in July in line with the traditional seasonal peak in the education sector with most primary schools in England being opened. Orders from other public sector customers such as the emergency services and local government were similarly buoyant in particular for cleaning equipment and PPE.
13. ESPO's distribution centre is operating under a revised safe system of work regime which requires social distancing from staff. The warehouse introduced zonal picking to keep picking staff in specific areas and away from each other. The transport operational protocol has been adapted to meet the new safe systems of work which, for example, meant that customers were not required to sign the delivery note. Covid-19 signage has been installed throughout the facility. A revised one-way system was introduced and a challenge log created to remind staff to remain two metres apart. A site inspection was conducted by Leicestershire County Council Health & Safety Officers and was formally signed off as 'Covid-19 Secure'. All relevant risk assessments, signage and safe systems of work have been shared with our Welsh depot and visited by ESPO's health and safety manager to ensure compliance.
14. As part of a national initiative to assist in the Shielding of Vulnerable People, on 3 April ESPO were nominated as the Food Hub for Leicestershire & Rutland. Working in conjunction with the corporate Resilience Planning Group ESPO continues to act as the distribution hub for food parcels. As part of a further national initiative which is being coordinated by HM military planners in conjunction with the LRP, ESPO is holding government emergency PPE for onward distribution to various settings including care homes and residential schools, these items are being processed on a free issue basis for collection or delivery on a daily basis to those in need. Donations are also being managed to help with a county initiative to increase the availability of PPE.
15. July is an important trading period for the stores business as schools prepare for the summer break. The distribution centre processed £6.752m of customer orders and the transport fleet with couriers made 21,122 customer deliveries. Warehouse picking was performed at a rate of 34 lines per hour, which is an improvement on the previous month as staff have adapted to social distancing. The error rate detected by QA was 4% which is above the target of 3% due to higher use of agency staff. The average order value for stock orders in July was £274.74 which is £18.01 higher than this time last year. Operational and supply chain YTD costs were £3.528m against a budget of £3.968m, which is £440k below budget reflecting decreased volume and tight cost control. Stores margin was 30.32% which is 0.32pp above budget.
16. The Customer Services Team processed 35,815 customer orders valued at £9.253m. This included a large number of school holiday offer (SHO) orders for delivery in August. Direct orders currently valued at £1.662m are being managed from suppliers to customers, a total of £672k are overdue and the suppliers are being

expedited by the customer services team. Across customer services, directs and catalogue admin the teams handled 9,178 telephone calls with an average waiting time of 38 seconds against a target of 30 seconds and a 7.2% abandon rate. ESPO's FEEFO customer service rating was 92% which indicates customer approval under the difficult environmental circumstances.

17. Following a business case and tender exercise the Customer Services Team has been working on a rebrand of ESPO's telephony voice messaging system with a service provider. This will give us the ability to be more dynamic in terms of messaging with fresher branding and an improved customer experience at the front end and have mirrored messaging across the new website. We expect the new voice protocols to help with the historic abandonment rate with clear pathways and simple wording. The messages will encourage customers to visit the ESPO web site where there will find further help and support with common queries. We are also looking into a "call you back" option to further improve the customer experience.
18. The stock optimisation team-maintained product availability at 94.55% with 543 lines out of 9,871 temporarily unavailable; stock value was £9.3m with a stock turn of 4.4. Product availability has deteriorated in some categories as a result of suppliers either temporarily closing or of delays in the international supply chain. This coincided with unprecedented demand for PPE and cleaning materials. Stock values increased as anticipated product sales in April and May fell away due to Covid-19. Investment in stock was planned as part of the peak trading plan, and subsequently by a decision to increase stocks of cleaning materials and PPE in anticipation of extra demand from schools and wider public sector. Alternative products have been sourced when existing suppliers were unable to fulfil back orders. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at KCS in Maidstone, at the port of Felixstowe and by its printer in Poland.
19. Facilities management in July was limited to essential activities mainly around Covid-19 signage improvements throughout the site. Other projects included lighting repairs, servicing of the sites aircon equipment including that of the server room, repairs to the pallet weighing equipment, sprinkler pumps servicing, warehouse doors service, compactor and bailer repairs.
20. There were two reported accidents in July a building contractor sustained a puncture wound whilst carrying out door repairs and first aid was administered. The second involved an agency worker who caught their back on a picking trolley there were no visible marks but may have exacerbated an existing condition. The agency worker subsequently elected to go home to rest.
21. The accident figure comparison for last six months with the previous year is shown below:

January to June 2019

Accidents: 26
Days lost time: 14

January to June 2020

Accidents: 9
Days lost time: 3

22. A return to site induction video to help staff adapt to the new working environment at the ESPO building was created. A vulnerable person's risk assessment template developed that can be used for anyone who is potentially more vulnerable, including BAME where appropriate. The extensive health and safety actions around Covid-19 have been previously detailed.
23. All members of the catalogue management team are working from home and are helping to manage availability for all suppliers and at the same time collating information on new products for the forthcoming catalogue in 2021. The team are writing contract specifications and updating information for the Agility/web upgrades. The team are helping with direct delivery suppliers and liaising with customer services as required to assist with the delivery. Those suppliers that were closed during lockdown are now open but not all are working at full capacity. The CMG team has contacted suppliers in the PPE and cleaning categories to establish their supply position. They have also been looking for alternative products and suppliers. This has prompted us to consider the vulnerability and risk in the supply chain and to look at alternative sourcing strategies.

Staffing

24. Following the initial furloughing of 99 members of staff, individuals have been phasing back into work over the summer, with the final group returning to work by 1 September 2020. This move has ensured that all of our services will be fully operational for schools reopening in the new academic year. The furloughing of staff has protected jobs and our services have successfully continued to function despite both the national and locally extended lockdown.
25. Sickness absence has continued to be well managed over this period and our overall levels have decreased again. The reductions evidenced over the last 24 months are still being seen every month, and this provides great confidence that sickness absence is being well managed within ESPO. Managers remain fully embedded with our approach and they continue to work with HR to implement appropriate support plans to help individuals return to work in a timely manner.
26. The completion rates for our mandatory training courses have maintained their high levels, despite our current inability to deliver face to face training to staff. Online training for those staff who have IT access has helped to ensure that staff have the necessary skills and knowledge to undertake their roles successfully is key for our service delivery.
27. Regular interaction with managers has been maintained through manager forums, Heads of Service Meetings, Team Meetings and regular all staff briefings. These have all ensured that vital messages and updates are disseminated throughout the organisation and that staff are also fully supported in their role. Staff newsletters have also continued to be issued every week, with additional Health, Safety & Wellbeing bulletins also being issued when required.

ESPO Risk and Governance Update

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

28. 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 B.

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 A: Balanced Scorecard

Appendix B: CRR extract

Management Summary Jul 20

Management Summary

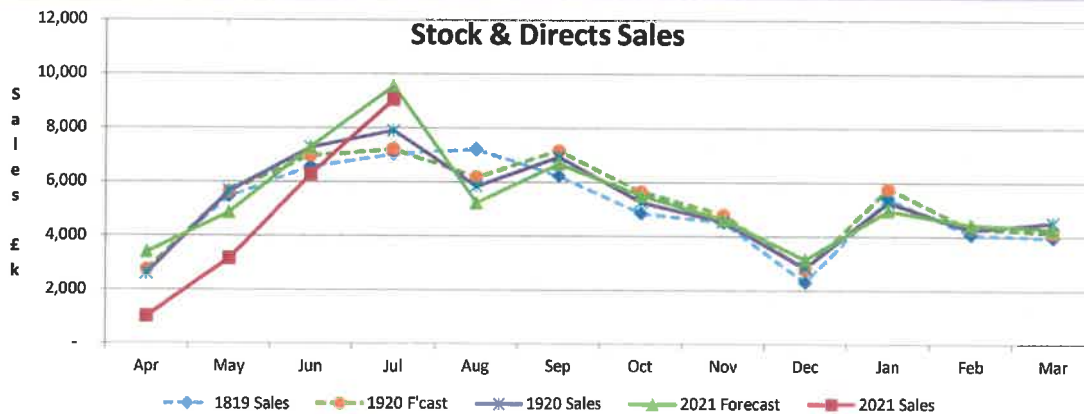
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stores Sales	£6,788,481	£7,163,701	↓ -5.2%	£15,453,918	↓ -17.8%
Direct Sales	£2,261,312	£2,384,906	↓ -5.2%	£4,042,655	↓ -35.7%
Rebate plus fee income	£840,865	£1,059,163	↓ -20.6%	£2,966,533	↑ 18.3%
Total Sales (Exc Gas)	£9,965,249	£10,699,285	↓ -6.9%	£23,109,066	↓ -18.2%
Stores Margin %	30.02%	30.00%	↑ 0.02pp	30.32%	↑ 0.32pp
Directs Margin %	13.41%	13.50%	↓ -0.09pp	14.77%	↑ 1.37pp
Total Gross Margin inc Consumables Cost	£3,285,094	£3,651,651	↓ -10.0%	£9,026,862	↓ -7.7%
Total Expenditure	£1,799,144	£1,858,845	↑ 3.2%	£6,477,853	↑ 7.5%
Surplus	£1,485,950	£1,792,805	↓ -£306,856	£2,549,009	↓ -£226,819
Net Profit Margin %	14.91%	16.76%	↓ -1.84pp	11.03%	↑ 1.21pp
Operations cost as a proportion of sales	14.5%	13.8%	↓ -0.76pp	24.9%	↓ -3.67pp
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	£51,926	£62,966	↓ -17.5%	£172,308	↓ -43.2%

Customer Order KPI's

	TY YTD	LY YTD	Var
AOV	£208.21	£193.00	↑ £15.21
Prop of orders over £15	97.7%	97.3%	↑ 0.37pp

Graph - Sales vs. Forecast



HR

	Actual	Target	Var
Sickness Absence Rates *	6.7	7.5	↑ -0.8
No. of Apprentices	15	7	↑ 8.0

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

Mandatory Training Completion	Actual	Target	Var
Fraud	94%	90%	↑ 3.95pp
Data Protection	82%	90%	↓ -8.47pp
Equality & Diversity	90%	90%	↓ -0.09pp
Health & Safety	88%	90%	↓ -2.22pp
GDPR	78%	90%	↓ -12.29pp

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Risk Ref	Risk Description	Consequences / Impact	Risk Owner	Original Risk Score	Original Risk Score Likelihood	Original Risk Score / 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) Imp	Current Risk Score (as at 31/12/17) Likeli	Current Risk Score / 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. 7. Continue to look out for member authority frameworks that duplicate ESPO's offering. 8. Keep abreast of speculative frameworks that could take business from ESPO frameworks. 9. Continue to explore and maximise exporting opportunities. 10. Review approach to recruitment and retention of key procurement/commercial staff.	AD Commercial	Ongoing	01/04/2019 Points 5, 6 & 7 added to List of Current Controls. Points 6 & 7 added to Risk indicators. 02/12/2019 Additional controls added. 05/03/2020 Further Actions updated. 08/06/2020 Reviewed - no change.
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. Grenfell 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 amend policies in future 9. Mock trials held on 6th & 13th Feb in conjunction with LCC.	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. 02/12/2019 4th & 5th November LCC H&S Audit conducted by Tony O'Brien. Minor non conformances and observations being responded to.

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. Bulk pallet occupation. 5. Percentage of orders picked on due day. 6. Sales v budget.	4	3	12	Treat	LCC discussions. Visibility at LT on a regular basis. 19/02/2020 LTFS Away Day planning 03/03/2020 Space meeting with LCC. Agreed to create a business case for investment in new warehouse 05/03/2020 Logistics consultants appointed to validate assumptions.	AD Operations	N/A	03/09/2019 Meeting with KCS in September 2019 to discuss storage facilities in 2020. 16/09/2019 we have secured up to 1750 pallet spaces from KCS for 2020/21. 02/12/2019 Discussions with LCC regarding additional warehouse site 4th Nov paper being developed. 05/03/2020 Risk indicators and Further Actions updated. 16.3.20 Created business case & LTFS. 20.7.2020 Financial model created. 5/8/20 COG meeting presented with draft business case & financial model
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 7. Enhance catalogue T&Cs 8. Make website default price reference point 9. Create Brexit planning group	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. 02/12/2019 List of Current Controls updated. 02/03/2020 Reviewed - no change. 08/06/2020 Reviewed - no change.
78	Coronavirus	1. 'Stock supply shortages for products or components that are made in China. With consequential effects in UK manufacturers production capability. 2. 'Staff shortages in all ESPO functional areas due to high sickness rates. 3. 'School closures to reduce infection spread. 4. 'Overall economic impact on ESPO's business activities due to sluggish restoration of international supply chain..	AD Operations	4	4	16	Treat	1. 'Set up an internal team tasked with managing ESPO's activities and communications in response to the health crisis. 2. 'Monitor updates and advice from WHO and UK government . 3. 'Maintain regular communications with customers, staff and stakeholders. 4. ESPO continue to promote good handwashing and hygiene practices and have increased the availability of antibacterial wipes and cleaning equipment.Contracting cleaning contractors disinfect door handles and hand rails as part of our contract. 5.Should a member of staff contract coronavirus EPSO will liaise with PHE directly at County Hall and follow any recommendations. 6. Should isolation be required our Smarter Working Policy provides guidance on staff working from home and where necessary individual risk assessments will be completed. In the event there is a requirement for an extended number of staff to work from home all available lap-tops provide to staff across the business will be recalled and distributed accordingly.. 7. Assess suppliers shortages through daily phone contact by Stock	1. Weekly stock availability reports with supplier shortages and failed customer orders. 2. Weekly 'staff sickness records attributable to the coronavirus. 3. Weekly trading analysis	4	3	12	Treat	1. Align staff policies to LCC guidelines. 2. Assess trading impact on financial forecasts. 3. Understanding of alternative sources of catalogue products. 4. Regular meetings of the internal team 5. Ongoing communications with all relevant parties through web site, weekly comms and formal reports. 04.03.2020 ESPO update on Coronavirus Report discussed at Mngmnt Committee. 06.03.2020 Teleconference with LCC.	Director	Ongoing	02/03/2020 Reviewed - no change. 05/03/2020 Further Actions Updated. 08/06/2020 New Covid-19 risk assessments and safe system of work created to ESPO building & operational protocols. Site Inspection on 27th May 2020 with further remedial actions required - this needs to go in the box above

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