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:	7 November 2023
My Ref	CT/ESPO
Please ask for:	Anna Poole
Direct Dialling	(0116) 305 2583
e-mail:	anna.poole@leics.gov.uk

To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held on Wednesday, 15 November 2023 at 10.30 am in the Sparkenhoe Committee Room, County Hall, Glenfield.

Members are reminded that a buffet lunch will not be provided after the meeting, although liquid refreshments will be available. Members are welcome to use the canteen at County Hall if they wish.

Yours faithfully,

Anna Poole
for Consortium Secretary

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 20 September 2023.		(Pages 3 - 8)
2.	To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.		
3.	Declarations of interests in respect of items on this agenda.		

4. Items referred by the Finance and Audit Subcommittee.

   Item 5 below - 2022/23 Financial Statements and Annual Governance Statement has been referred by the Subcommittee for consideration by the Management Committee.

5. 2022/23 Financial Statements and Annual Governance Statement. (Pages 9 - 62)

6. Warehouse Extension Update. (Pages 63 - 70)

7. Director's Progress update. (Pages 71 - 84)

8. 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).

9. Supplementary Information Informing the Progress Report of the Director's Progress Update. (Pages 85 - 98)

10. Date of Next Meeting.

    The next meeting of the Committee is scheduled to take place on 20 March 2024 at 10.30am.

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, Leicestershire on Wednesday, 20 September 2023.

PRESENT

(in the Chair)

Lincolnshire County Council
Cllr. S. Rawlins

Peterborough City Council
Cllr A Coles
Cllr. J Allen

Leicestershire County Council
Mrs M Wright CC (Chair)
Mr. J. Poland CC

Warwickshire County Council
Cllr. P Butlin

APOLOGIES

Apologies were received from
Cllr. A. Hagues (Lincolnshire County Council), Cllr. A. Jamieson (Norfolk County Council), Cllr Richard Baxter-Payne – Warwickshire County Council,

IN ATTENDANCE

Cllr. N. Shailer (Cambridgeshire County Council – Online)
Cllr. S. Ferguson (Cambridgeshire County Council - Online)
Cllr J James (Norfolk County Council – Online)

ESPO
Kristian Smith - Director
David Godsell – Assistant Director
Gary Ford – Assistant Director
Maurice Campbell – Assistant Director
Dave Goodacre – Financial Controller

Leicestershire County Council
Simone Hines– On behalf of Consortium Treasurer
Lauren Haslam – On Behalf of the Consortium Secretary
Anna Poole – Democratic Services Officer

The Chairman announced that as there were less than four member authorities present in the room, the meeting was not quorate. As members had joined online, the meeting would be held as a virtual meeting and the procedure set out in the Constitution (Standing Order 21.6) would be followed.

14. Minutes of the previous meeting.

The minutes of the meeting held on 28 June 2023 were taken as read, confirmed, and signed.

15. Urgent items.

There were no urgent items for consideration.

16. Declarations of interests.

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

No declarations were made.

17. Items referred by the Finance and Audit Subcommittee.

There were no items referred by the Finance and Audit Subcommittee. The issue considered by the Subcommittee is covered in minute 23 below.

18. Consortium Secretary and Consortium Treasurer.

The Management Committee considered a report of the Consortium Secretary which proposed that the role of Consortium Secretary be transferred from the Chief Executive of Leicestershire County Council to the Director of Law and Governance, Leicestershire County Council and advised of a change of person in the role of Consortium Treasurer. A copy of the report, marked 'Agenda item 5', is filed with these minutes.

It was moved by Mrs Maggie Wright CC and seconded by Cllr Butlin that:

(a) the appointment of Lauren Haslam, Leicestershire County Council's Director of Law and Governance as Consortium Secretary and to delegate the relevant functions set out in Appendix 3 of the Constitution to her, be formally confirmed;

(b) the appointment of Declan Keegan, Leicestershire County Council's Director of Corporate Resources, as Consortium Treasurer and to delegate the relevant functions set out in Appendix 3 of the Constitution to him, be formally confirmed.

RESOLVED:

That:

(a) the appointment of Lauren Haslam, Leicestershire County Council's Director of Law and Governance as Consortium Secretary and to delegate the relevant functions set out in Appendix 3 of the Constitution to her, be formally confirmed;

(b) the appointment of Declan Keegan, Leicestershire County Council's Director of Corporate Resources, as Consortium Treasurer and to delegate the relevant functions set out in Appendix 3 of the Constitution to him, be formally confirmed.

19. <u>Director's Progress update.</u>

[Before the item was presented by the Director, the Chairman announced that the meeting was now quorate as a meeting with 4 member authorities present in the room, and added that the meeting would now return to the procedures followed for a quorate meeting.]

The Management Committee gave consideration to a report of the Director which provided an update of the actions and progress made since the previous ESPO Management Committee held on 28 June 2023. A copy of the report, marked ‘Agenda Item 6, is filed with these minutes.

In presenting the report, the Director explained that the External Audit had been completed for 2022/23 and would be presented to the Finance and Audit Subcommittee as planned at its meeting in October. He added that the warehouse extension had been delayed slightly but was expected to start in mid-October. the inflationary environment had affected the project, as with all capital projects.

In response to questions, the Director explained that

i. staff were so much more aware of the risks surrounding IT security following guidance and training. The IT team regularly sent out testing emails of a suspicious nature to staff to test their level of knowledge in this area and determine where further training was needed.
ii. although Eduzone was performing well, it was not a business priority to increase investment in this area. However, performance would be kept under review.
iii. underlying inflation continued, and could be disruptive for ESPO. Officers would plan beyond that for business continuity. However, a downward inflationary trend could be good for ESPO overall.

It was moved by Mrs Maggie Wright CC and seconded by Cllr Rawlins that the update provided by the Director be noted.

RESOLVED:

That the update provided by the Director be noted.

20. <u>Date of Next Meeting.</u>

It was noted that the next meeting of the Committee would be held on 15 November 2023 at 10.30am at County Hall, Glenfield.

21. <u>Exclusion of the Press and Public.</u>

RESOLVED:

That under Section 100 (A) (iv) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that it will involve the disclosure of exempt information as defined in the Act and that in all of the circumstances the public interest in maintaining the exception outweighs the public interest in disclosing the information.

22. <u>Supplementary Information Informing the Progress Report of the Director's Progress Update.</u>

The Management Committee considered an exempt report of the Director which set out further supplementary information regarding the Director's Progress Update. A copy of the report, marked 'Agenda item 10', is filed with these minutes.

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

The Director responded to questions related to:

i. The provision of LPG as an alternative fuel to gas/electricity for schools in some rural areas;
ii. Financial risks to ESPO presented by financial issues experienced by local authorities;
iii. The impact on business delivery due to potential difficulties of sourcing gas/electricity;
iv. whether English language schools were a potential market for ESPO;
v. the preference of customers for online or catalogue ordering.

It was moved by Mrs Maggie Wright CC and seconded by Cllr Coles that the update provided by the Director be noted.

RESOLVED:

That the update provided by the Director be noted.

23. <u>Financial Year 2022/23 - Rebate Performance.</u>

The Management Committee received an exempt presentation by the Director concerning rebate performance. A copy of the report, marked 'Agenda item 11', is filed with these minutes.

The exempt presentation 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 presentation included:
- Highlights
- Top 20 Framework Rebate Performance
- Framework Sector Performance
- Top 10 Customer Growth
- New Business
- Aspirations for 2023/24.

Questions from Members related to:
- How frameworks were chosen and developed
- What businesses were included in the list for Local Government/Central Government Frameworks
- The recycling and refuse marketplace

- How recycling rates could be improved and what support was in place for customers
- How rejection rates could be reduced, and the impact mitigated.

It was moved by Mrs Maggie Wright CC and seconded by Cllr Rawlins that the update provided on the Financial Year 2022/23 Rebate Performance be noted.

RESOLVED:

That the update provided on the Financial Year 2022/23 Rebate Performance be noted.

24. Competitor Report.

The Management Committee considered an exempt report of the Director which provided an update on ESPO's competitor landscape. 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).

It was moved by Mrs Maggie Wright CC and seconded by Cllr Butlin that the update provided on ESPO's Competitor landscape be noted.

RESOLVED:

That the update provided on ESPO's Competitor landscape be noted.

10.30 am - 12.00 pm CHAIRMAN
20 September 2023

This page is intentionally left blank

MANAGAMENT COMMITTEE – 15 NOVEMBER 2023

2022/23 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the 2022/23 financial statements (also referred to as the Statement of Accounts within a Local Government setting) and the 2022/23 Annual Governance Statement (AGS). These items were reviewed by the Finance and Audit Sub Committee at its meeting on 11 October 2023 and recommended for approval.
2. The Management Committee is asked to approve the Annual Governance Statement and the 2022/23 financial statements.
3. The Management Committee is also asked to approve the dividend pool of £4,369,269, for payment in December 2023.

Background

4. The ESPO constitution requires statutory statements of accounts (‘financial statements’) to be prepared for approval by Management Committee. These accounts are attached as Appendix 1. These are draft pending approval by the Committee.
5. The results of the external audit were reviewed and approved by the Finance and Audit Sub Committee at its meeting on 11 October, with the auditor attending and presenting their findings directly to the Sub Committee. (Note – the auditor changed to TC Group this summer following their acquisition of the Midlands region of Fortus).
6. Given the small size of both ESPO Trading Limited (ETL) and Eduzone, they do not require an external audit. Their accounts are in the process of being prepared to coincide with the 31 December 2023 submission deadline and will be overseen by the ETL Board of Directors.

Key Points

7. The external audit resulted in a ‘clean’ audit opinion. The auditors did not identify any significant control weaknesses, nor did they identify any significant accounting differences (whether adjusted or unadjusted).

8. For 2022/23 the trading surplus previously reported to Management Committee (the 'Management Accounts") was a surplus of £5.9m. This was £0.3m higher than budget and £0.4m higher than 2021/22. As discussed in previous Management Committee meetings, this was a great result for ESPO.

9. The Financial Statements show a net profit for 2022/23 of £3.7m (2021/22 = £3.5m). This is different to the Management Accounts due to additional pension costs (which are only accounted for fully in the Financial Statements) and a number of other statutory adjustments.

10. A dividend of £4.4m is proposed. The statutory adjustments, including the large movements in the pension scheme, do not impact the value of the dividend paid.

11. ESPO's financial position remains healthy, with net current assets of £20.8m at 31 March 2023. This allows for the dividend mentioned in paragraph 9 to be paid, supports the build up of reserves for the planned investment in the warehouse, and supports the working capital needs of the business – both longer term and also for each seasonal summer peak.

Key Areas of Judgement

12. There are a number of areas of judgement in the Financial Statements, which require estimates to be made and/or assumptions used. These could have a very significant impact on the Financial Statements:

13. Value of pension: The closing position as at 31st March 2023 was an asset of £3k (prior year a deficit of £20.2m). This is shown as 'Post Employment Benefits' on the balance sheet on page 12 of the financial statements. Further details are provided in note 18 to the accounts and the valuation is based on a third party valuation by the actuaries Hymans Robertson. The change is significant and is due to the latest triennial valuation and changes in financial assumptions linked to improving interest rates. All assumptions applied are consistent with Leicestershire County Council and the pension scheme is now 100% funded. Additional contributions will continue as per the central scheme's strategy to get to a 120% funding level.

14. Value of land and buildings: The Grove Park premises were valued at £18.2m (prior year £18.0m) in accordance with professional guidelines by chartered surveyors. The outstanding loan used to purchase the site now stands at £3.75m.

15. Going Concern: A key assumption in preparing the financial statements is that ESPO will continue trading for the foreseeable future, considered to be at least 12 months from the date of signing the financial statements. The latest financial performance, considered elsewhere on the agenda, gives a current trading update, but trading in 2023/24 has been strong and we remain on target to deliver the Medium Term Financial Strategy (MTFS) giving comfort over the use of the going concern assumption.

23/24 Dividend

16. Each year ESPO pays a distribution back to members from the surplus it has generated. This provides a valuable contribution towards public services, in addition to the day to day value for money and compliance that EPSO affords its customers.

17. The Management Committee agreed in 2015 a method for calculating the dividend, which considers ESPOs overall surplus and the member usage of ESPO. As part of this ESPO retains 20% of the surplus to support the future growth and maintenance of the business. In addition, like previous years, ESPO also wishes to retain an additional £400k to build its property maintenance reserve to ensure sufficient funding is retained for future maintenance and capital requirements.

18. Applying the above model yields a dividend pool for members of £4,369,269 and, if approved, ESPO expects to make payment of individual member amounts in December 2023.

Annual Governance Statement

19. Similar to the external audit, and unlike local authority members, ESPO is not required to publish an Annual Governance Statement. It is however a useful tool to review the effectiveness of ESPO's governance arrangements and to demonstrate good governance to its stakeholders.

20. The AGS was reviewed by a senior management group consisting of:

    Leicestershire County Council (The Servicing Authority)
    - Director of Law and Governance (ESPO Secretary)
    - Assistant Director - Strategic Finance & Property (on behalf of the Consortium Treasurer)
    - Head of Internal Audit and Assurance Service

    ESPO
    - Director of ESPO
    - Commercial Financial Controller

21. The 2022/23 Annual Governance Statement is included in Appendix 2.

22. No areas of significant concern are identified in the AGS.

Governance and Assurance

23. In reviewing the decision to approve the 2022/23 Financial Statements, the Management Committee can gain assurance over the quality of the governance arrangements within ESPO from:

a. The external auditors, through their audit opinion and audit findings report.
b. Internal audit, through previous updates to Management Committee and the Finance and Audit Sub Committee and also inclusion in the AGS process.
c. ESPO Management, through previous updates to Management Committee and also inclusion in the AGS process.

Recommendation

24. The Management Committee is asked to approve:

(a) the 2022/23 Annual Governance Statement;

(b) the 2022/23 financial statements;

(c) the dividend pool of £4,369,269 to be paid out in December 2023.

Equal Opportunities Implications

25. None.

Officer to Contact

Kristian Smith, Director
k.smith@espo.org
0116 265 7931

Declan Keegan, Consortium Treasurer
Declan.Keegan@leics.gov.uk
0116 305 7831

Appendices

Appendix 1 – 2022/23 ESPO Financial Statements
Appendix 2 – 2022/23 Annual Governance Statement

Draft

Annual report and financial statements

2022-2023

espo.org

Contents

Statement from the Chair	3
Annual Report	4
Independent Auditors Report	9
Income Statement	12
Statement of Comprehensive Income	13
Balance Sheet	14
Statement of Cash Flows	15
Statement of Changes in Equity	16
Notes to the Financial Statements	17

Statement from the Chair

During 2022/23 we were delighted to see the schools we support return to a much more normal and happy environment for students after such a challenging period in recent years from the Covid-19 pandemic.

Despite some return to normal operations, inflation and the impact on the cost of living were national issues which affected our customers, our staff, and our own operations. We were very aware of the already stretched budgets in schools and the public sector, and the need for us to keep our prices low and so we were very careful to ensure we offered great value for money and limited any price increases wherever we could.

With a busy year and high trading volumes, once again I'm incredibly proud of our staff team for delivering our services this year, adapting to a more settled hybrid way of working at our Leicester base, and responding to the ever challenging and competitive trading environment. To all our colleagues I would like to say thank you!

ESPO's financial performance in 2022/23 was very good, with the organisation continuing to grow, and ESPO maintains a strong balance sheet with a healthy cash position. ESPO created a profit of £3.7m, but this is a profit with a purpose and during the year ESPO was able to return £4.1m back to its local authority members to be invested into local services and communities and this is something the entire Management Committee are especially proud of.

Looking ahead, we see inflation likely to remain an issue and we know that funding within schools remains stretched. I continue to be confident that our long standing approach of focusing on our customer offer, ensuring great everyday value for money and maintaining good stock availability will continue to steer ESPO through these volatile times.

Cllr M. Wright

Chair of ESPO Management Committee

Date: [date]

Annual Report

Eastern Shires Purchasing Organisation ('ESPO') is a public sector owned professional buying organisation (PBO), specialising in providing a wide range of goods and services to the public sector for over 40 years. We offer a comprehensive, one-stop shop solution to UK schools and others, of over 25,000 products, 130 frameworks and bespoke procurement services, all with free support and advice available from our expert teams. This is serviced to customers through our website www.espo.org and our popular annual catalogue.

Mission

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

Values

Our values guide everything we do here at ESPO, helping us to provide the best possible service to our customers and operate in a way that's line with our public sector ethos.

- Working together
- Positivity
- Trust and Respect
- Customer focused
- Openness and transparency

Status and ownership

ESPO is a joint committee set up under Section 102 of the 1972 Local Government Act. The member authorities of the joint committee, known as the 'Management Committee' are Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

Strategic report

The strategic report on Eastern Shires Purchasing Organisation (ESPO) for the year ended 31 March 2023 is presented below.

Review of the business

2022/23 saw the return of a 'normal' academic year for schools after several years of disruption from Covid-19 and EPSO largely saw a return to pre-pandemic levels of demand as a result. We continued to see challenges in the global supply chain until late in 2022, linked to global issues such as the war in Ukraine and Covid restrictions only easing in China in autumn 2022. Maintaining good stock availability is always important to us and through the last year this was an area of significant focus for us to ensure we could meet the needs of our customers. Through the great work of our team we were able to offer good levels of stock availability, improving on the previous year.

2022/23 also saw the start of a rapid increase in inflation in the UK and ESPO was not immune to this. We were careful to manage pricing and limit the extent that inflationary increases were passed on to customers as much as we could, knowing how tight school budgets are and wanting to make sure that ESPO was able to offer great value for money everyday.

Supporting our staff in these difficult times we were also able to offer the nationally agreed local government pay award of £1,925 per person.

Financially, it was a successful year for ESPO and a profit of £3.7m has been created (2021/22: £3.5m).

Overall revenue increased from £90.6m last year to £106.3m. Through our catalogue, we delivered or administered £75.9m of goods to customers, over £8m higher than last year, and reflecting both the winning of new business, and a necessary increase in selling prices to support the higher cost of goods.

Gas revenue increased from £12.9m to £19.1m, reflecting the significant increase in market gas prices from the war in Ukraine and sanctions applied to Russia. At ESPO we act as a procurement agent for our customers, charging a fixed daily fee and so didn't benefit from this market volatility. Our expert Energy team support customers by buying energy to help secure good prices for them, and to help them manage risk. This service remains hugely popular with customers benefitting from our approach to buying.

Rebate income from our frameworks continued to grow and reached a record £10.5m, with ESPO continuing to offer a broad range of frameworks for our public sector customers to support their procurement and compliance needs.

Costs remained tightly controlled to ensure we can continue to best provide value to our customers and our member authorities.

Carbon Report

Greenhouse gas emissions, energy consumption and energy efficiency action

The Streamlined Energy and Carbon Reporting (SECR) figures will present a benchmark for future activity.

ESPO's greenhouse gas emissions and energy consumption are as follows:

	2023
Energy consumption used to calculate emissions (kWh)	3,669,289
Energy consumption break down (kWh)	
Gas	1,386,410
Electricity	779,195
Vehicle fuel	1,503,684
Scope 1 emissions (in tonnes of CO2 equivalent)	
Gas consumption	253
Vehicle fleet	523
Total scope 1	776
Scope 2 emissions (in tonnes of CO2 equivalent)	
Purchased electricity	151
Total gross emissions (in tonnes of CO2 equivalent)	927
Intensity ratio – kg of CO2e per £1 of stores revenue	0.02

Quantification and reporting methodology

We have followed the 2019 HM Government Environment Reporting Guidelines. We have also used the GHG Reporting Protocol – Corporate Standard and have used the 2022 UK Government Conversion Factors for the Company Reporting.

Intensity measurement

The chosen intensity measurement ratio is total gross emissions in kg of CO2e per £ of stores revenue, a recommended ratio for the sector.

Measures taken to improve energy efficiency

We have a policy of recording and reviewing energy use and investigating unexplained anomalies. Our energy is recorded using smart meters and consumption checked to ensure it follows expected patterns.

Across our fleet we are trialling the use of two electric delivery vehicles to understand how the technology might be applied in a cost efficient way to our business in the future.

2023 reflects the first year of publishing SECR data and will be used to set a baseline for future reporting and measuring improvements against. 2023 benefits from not being significantly affected by the impact of Covid-19.

Principal risks and uncertainties

ESPO's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. ESPO does not use derivative financial instruments for speculative purposes.

Credit risk

ESPO's financial assets are bank balances and cash, trade and other receivables.

The credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, ESPO uses a mixture of long-term and short-term debt finance. It also maintains high levels of cash at any given time.

Political risk

ESPO's customers include a wide number of UK public sector organisations, with schools forming a significant grouping. Any significant changes in Government or Education policy which affect public sector or school spending levels could lead to a reduction in market size and/or a reduction in customer spending with ESPO. We maintain a close watch of policy, and a close relationship with our customers to understand and react to upcoming challenges. ESPO also maintains a diverse portfolio of products and services, and supports a broad range of customer so as to limit any possible impact.

Supply Chain

ESPO's ability to operate is contingent on being able to source products for customers at the right time and at the right price. This was complicated initially as a result of Brexit and the Covid-19 pandemic which caused disruption to global supply chains, and more recently by the war in Ukraine. These global events resulted in increased cost, time and administration in sourcing product. In managing this we maintain a broad supplier base, factored longer lead times into our planning cycle, and continually monitor product availability to respond to needs as they arise. We are also increasing capacity at our Leicester warehouse.

Price risk and inflation

ESPO is exposed to risk from changing product prices which increases in times of high inflation. Not being a manufacturer, our ability to manage our exposure to this risk comes from agreeing and negotiating contracts with suppliers and also benchmarking selling prices to ensure we remain competitive. Purchases are made significantly in GBP, with key suppliers known to operate hedging arrangements, which limits our exposure to fluctuating exchange rates.

People risk

ESPO depends on our highly skilled team and failing to recruit in a competitive marketplace could impact on our ability to serve our customers and deliver positive outcomes for our many stakeholders. We review our employee offer, monitor staff engagement, offer a range of learning and development opportunities, and actively support health and safety, and wellbeing in the business.

Cyber risk

ESPO views cyber related risks as one of the greatest general threats facing any organisation and we have a variety of measures in place to pro-actively prevent and detect issues. We are continually improving the awareness and resilience within the organisation to these threats.

Going Concern

The senior officers have reviewed the going concern status of ESPO and have a reasonable expectation that ESPO has adequate resources to continue in operational existence for the foreseeable future. A Medium-Term Plan covering four years is presented to the Management Committee and reviewed and approved on an annual basis. Also, a revised forecast for the current trading year is carried out at least every six months to reflect any changes that may materially impact the year end position.

At year end ESPO has net current assets of £20.8m, a strong cash position and continues to trade well with high levels of customer demand. ESPO continues to monitor and respond to circumstances as they arise to minimise their impact on the organisation.

Financial performance is closely monitored and a number of different scenarios evaluated to ensure that even in the rapidly changing and uncertain external environment ESPO can continue to ensure its long-term sustainability.

In considering all of the above, ESPO continue to adopt the going concern basis in preparing the financial statements.

Management Committee Responsibilities Statement

The Management Committee are responsible for ensuring the proper administration of ESPO's financial affairs, its compliance with all laws and regulations, and for approving the annual report and financial statements.

The Management Committee have elected to prepare financial statements which give a true and fair view of the state of affairs and profit or loss of ESPO for that period in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). In preparing these financial statements, the Management Committee have ensured that:

- suitable accounting policies have been selected and applied consistently;
- judgements and accounting estimates made are reasonable and prudent;
- they state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the organisation will continue in business;

The Management Committee are responsible for ensuring that adequate accounting records are maintained that are sufficient to show and explain ESPO's transactions and disclose with reasonable accuracy at any time the financial position of ESPO and enable them to ensure that the financial statements comply with United Kingdom Generally Accepted Accounting Practice. They are responsible for managing ESPO's affairs to secure economic, efficient and effective use of resources and also safeguard its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Committee are responsible for ensuring the maintenance and integrity of the corporate and financial information included on the organisation's website at www.espo.org. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To ensure the proper administration of its financial affairs the Management Committee secure that one of its officers has the responsibility for the administration of those affairs; for the consortium that officer is the Director of Corporate Resources of Leicestershire County Council who is the 'Consortium Treasurer';

These accounts were approved at a meeting of the Management Committee on [date].

Cllr M. Wright

Chair of ESPO Management Committee

D Keegan

Director of Corporate Resources of Leicestershire County Council (Consortium Treasurer of ESPO)

Independent Auditors Report

Opinion

We have audited the non-statutory financial statements (the 'financial statements') of Eastern Shires Purchasing Organisation (the 'Joint Committee') for the year ended 31 March 2023, which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cashflows, the Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements give a true and fair view of the state of the Joint Committee's affairs as at 31 March 2023 and of its profit for the year then ended and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Joint Committee in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Joint Committee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Joint Committee's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Joint Committee with respect to going to concern are described in the relevant sections of this report.

Other information

The Joint Committee are responsible for the other information. The other information comprises the information included in the Strategic Report, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Joint Committee for the financial statements

As explained more fully in the Management Committees' responsibilities statement set out on page 8, the Joint Committee are responsible for preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Joint Committee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Joint Committee are responsible for assessing the Joint Committee's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Joint Committee either intend to liquidate the Joint Committee or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditors that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Joint Committee and determined that the most significant frameworks which are directly relevant so specific assertions in the financial statements are those that relate to the reporting framework (UK GAAP) and the relevant tax compliance regulations in the UK.
- We understood how the Joint Committee is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through review of board minutes and discussions with those charged with governance.
- We assess the susceptibility of the Joint Committee's financial statements to material misstatement, including how fraud might occur, by discussion with management from various parts of the business to understand where they considered there was a susceptibility to fraud. We considered the procedures and controls that the Joint Committee has established to prevent and detect fraud, and how these are monitored by management, and also any enhanced risk factors such as performance targets.
- Based on our understanding, we designed our audit procedures to identify any non-compliance with laws and regulations identified in the paragraphs above.
- We also performed audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Joint Committee, as a body, in accordance with our letter of engagement dated 4 April 2022. Our audit work has been undertaken so that we might state to the Joint Committee those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Joint Committee, as a body, for our audit work, for this report, or for the opinions we have formed.

TC Group

31 High View Close
Leicester
LE4 9LJ

Income Statement

For the year ended 31 March 2023.

	Note	2023 £'000	2022 £'000
Turnover	5	106,289	90,565
Cost of sales		(76,538)	(63,159)
Gross profit		29,751	27,406
Distribution costs		(2,840)	(2,278)
Administrative expenses		(22,737)	(21,102)
Operating profit	8	4,174	4,026
Exceptional Items	9	-	250
Interest receivable	10	247	19
Interest payable	11	(753)	(781)
Profit for the financial year		3,668	3,513

Statement of Comprehensive Income

For the year ended 31 March 2023.

	Note	2023 £'000	2022 £'000
Profit for the financial year		3,668	3,513
Gains arising on revaluation of tangible fixed assets		402	2,449
Remeasurement of net defined benefit liability	18	22,196	9,094
Total comprehensive income		26,266	15,056

Balance Sheet

As at 31 March 2023.

	Note	2023 £'000	2022 £'000
Fixed assets			
Intangible assets	12	362	604
Tangible assets	13	19,777	19,187
		20,139	19,791
Current assets			
Stocks	14	10,262	6,963
Debtors: amounts falling due within one year	15	9,745	9,537
Cash at bank and in hand		12,012	13,120
Creditors: Amounts falling due within one year	16	(11,198)	(9,829)
Net current assets		20,821	19,791
Total assets less current liabilities		40,960	39,582
Creditors: Amounts falling due after more than one year	17	(3,250)	(3,750)
Post Employment Benefits	18	3	(20,217)
Net assets		37,713	15,615
Capital and reserves			
General Reserve		31,684	30,012
Pension Reserve		3	(20,217)
Revaluation Reserve		6,026	5,820
Total Reserves		37,713	15,615

The financial statements of Eastern Shires Purchasing Organisation were approved by the members and authorised for issue on [date]. They were signed on its behalf by:

D Keegan

Director of Corporate Resources of Leicestershire County Council (Consortium Treasurer of ESPO)

Statement of Cash Flows

For the year ended 31 March 2023.

	Note	2023 £'000	2022 £'000
Net cash from operating activities	21	**4,338**	**6,995**
Cash flows from investing activities			
Purchase of fixed assets	13	(831)	(489)
Purchase of intangible assets	12	(48)	(79)
Interest received	10	248	19
Net cash from investing activities		**(631)**	**(549)**
Cash flows from financing activities			
Interest paid	11	(178)	(210)
Repayment of borrowings		(500)	(500)
Dividends paid		(4,137)	(3,334)
Net cash used in financing activities		**(4,815)**	**(4,044)**
Net increase/(decrease) in cash and cash equivalents		**(1,108)**	**2,402**
Cash and cash equivalents at the beginning of the year		**13,120**	**10,718**
Cash and cash equivalents at the end of the year		**12,012**	**13,120**

Statement of Changes in Equity

For the year ended 31 March 2023.

	P&L Reserve	Pension Reserve	Revaluation Reserve	Total
	£'000	£'000	£'000	£'000
At 31 March 2021	**27,344**	**(26,995)**	**3,544**	**3,893**
Profit for the financial year	3,513	-	-	3,513
Remeasurement of net defined benefit liability	-	9,094	-	9,094
Surplus on revaluation of land and buildings	172	-	2,276	2,449
Total comprehensive income	**31,030**	**(17,901)**	**5,820**	**18,949**
Timing transfer of retirement benefit costs	2,316	(2,316)	-	-
Dividend paid	(3,334)	-	-	(3,334)
At 31 March 2022	**30,012**	**(20,217)**	**5,820**	**15,615**
Profit for the financial year	3,668	-	-	3,668
Remeasurement of net defined benefit liability	-	22,163	-	22,163
Surplus on revaluation of land and buildings	197	-	206	403
Total comprehensive income	**33,877**	**1,946**	**6,026**	**41,849**
Timing transfer of retirement benefit costs	1,943	(1,943)	-	-
Dividend paid	(4,137)	-	-	(4,137)
At 31 March 2023	**31,684**	**3**	**6,026**	**37,713**

Notes to the Financial Statements

For the year ended 31 March 2023.

1. General Information

Eastern Shires Purchasing Organisation ('ESPO') provide professional, comprehensive, value for money purchasing, contracting and supplies service for member authorities and other public bodies.

ESPO is a joint committee set up under Section 102 of the 1972 Local Government Act. The member authorities are Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

2. Statement of Compliance

The financial statements of Eastern Shires Purchasing Organisation ('ESPO') have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102').

3. Summary of Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

a. Basis of preparation

These financial statements are prepared on a going concern basis.

FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the organisation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The functional currency of ESPO is considered to be pounds sterling because that is the currency of the primary economic environment in which it operates.

b. Going concern

The Consortium has reviewed the going concern status of ESPO by its ability to meet its day to day working capital requirements and the updating of its medium term financial plan. The current economic conditions continue to create uncertainty over the level of demand for ESPO's products but the Consortium's latest financial plan considers the possible impact of changes in trading performance, and shows that ESPO should be able to continue to operate for the foreseeable future.

In considering the above, management have a reasonable expectation that the organisation has adequate resources to continue in operational existence for a period of at least 12 months from approval of the financial statements.

ESPO therefore continues to adopt the going concern basis in preparing its financial statements.

c. Turnover

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. Revenue associated with our procurement agency role in the sale of gas is recognised 1 month in arrears given the nature of our role in validating bills and supporting our customers to manage risk.

Notes to the Financial Statements

For the year ended 31 March 2023.

3. Summary of Accounting Policies (Continued)

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.

Government grants, which are related to performance and specific deliverables, are recognised in the Income Statement when the organisation earns the right to the consideration by its performance.

d. Exceptional Items

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

e. 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.

The Local Government Pension Scheme:

In accordance with the FRS 102, 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. 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 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:

Quoted 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:

Current service cost: The increase in liabilities as a result of years of service earned this year – allocated in the Income 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 Income Statement.

Net interest on the net defined benefit liability (asset).

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

Notes to the Financial Statements

For the year ended 31 March 2023.

3. Summary of Accounting Policies (Continued)

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.

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.

f. 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.

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 on a straight-line basis and charged to the Income Statement as follows:

IT Software – 3 to 5 years

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are charged to the Income Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is charged to the Income Statement, in the year of the disposal.

g. Tangible Assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, on a straight-line basis over its expected useful life as follows:

Land and Buildings – 70 years

Vehicles, Plant and Equipment – 3 to 25 years

h. 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) and recognised in the Statement of Comprehensive Income.
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount is written down and the cost charged to the Income Statement.

i. Leased Assets

Finance leases are recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if

Notes to the Financial Statements

For the year ended 31 March 2023.

3. Summary of Accounting Policies (Continued)

lower). The asset recognised is matched by a liability for the obligation to pay the lessor. 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.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

j. Inventory

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.

k. 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.

l. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

m. Financial Instruments

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 Income 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 Income Statement is the amount payable for the year according to the loan agreement.

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. 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 Income 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 Income 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 Income 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 asset's original interest rate. Any gains or losses that arise on the de-recognition of an asset are credited or debited to the Income Statement.

n. Borrowing costs

Borrowing costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. Capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Notes to the Financial Statements

For the year ended 31 March 2023.

3. Summary of Accounting Policies (Continued)

o. Taxation

ESPO is a joint committee set up under Section 102 of the 1972 Local Government Act and is entitled to certain exemptions from Corporation Tax on any surplus or profit it generates.

p. Dividends

Distributions to ESPO's joint committee member authorities, i.e. dividends, are recognised in the Statement of Changes in Equity when they are paid.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the organisation's accounting policies, which are described in note 3, judgements are required (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The items in ESPO's Balance Sheet at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant and Equipment

The warehouse and office 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 carry out the valuation. The current property value used in the 2022/23 accounts is based on a certificate issued by the Council's Principal Valuer as at 31 March 2023.

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.

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.

The current economic climate could present uncertainty as to whether the Consortium will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying value of Property, Plant and Equipment at 31 March 2023 is £19.7m.

Notes to the Financial Statements

For the year ended 31 March 2023.

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

Pension 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 Consortium with expert advice about the assumptions to be applied, although ultimate responsibility for forming these assumptions remains with the Consortium.

The carrying value of the Pension Liability as at 31 March 2023 is £nil (2022: £20.2m)

The effects on the net liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £0.9m. A one-year increase in member life expectancy compared with the assumption used would increase the liabilities by £1.7m. However, the assumptions interact in complex ways. During 2022/23, the organisation's actuaries advised that the net pension liability had decreased by £20.2m attributable to updating of the assumptions.

The outbreak of COVID-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty and a higher degree of caution should be attached to the valuation.

Debtors

At 31 March 2023 ESPO had a balance of sales ledger debtors of £7.8m. A review of overdue debts has identified that impairment for doubtful debts of £0.2m was appropriate. However, there remains uncertainty over that estimate.

If an additional 1% of customers become insolvent, the amount of the impairment for doubtful debts would require an additional £0.1m to be set aside as an allowance.

Stock

Stocks of catalogue products are held in anticipation of sales to customers and at 31 March 2023 gross stock of £10.9m was held. The catalogue is re-issued annually and products may be added or deleted creating a risk where stock in excess of 1-year worth of normal sales are held. In addition, there is a risk that products may become obsolete, perish or otherwise need to be discounted or on rare occasions disposed of. At 31 March 2023 the provision for the possible impairment of stock amounted to £0.6m.

If an additional 1% of the stock holding was identified to be obsolete or otherwise need to be written off, then the resulting reduction in stock and write down would be £0.1m.

Critical judgements in applying the accounting policies

Management have not identified any critical judgements in applying the organisation's accounting policies.

Notes to the Financial Statements

For the year ended 31 March 2023.

5. Turnover and revenue

An analysis of turnover by class of business is set out below.

Turnover	2023 £'000	2022 £'000
Stock Orders	53,453	47,615
Direct Orders	22,446	20,191
Gas	19,126	12,889
Rebate Income	10,484	9,068
Catalogue Advertising	780	802
	106,289	90,565

6. Senior Officers' remuneration and transactions

Senior Officers' remuneration	2023 £'000	2022 £'000
Aggregate Emoluments	511	544
Pensions Contributions	91	123
	642	667

The number of senior officers who:	Number	Number
Are members of a defined benefit pension scheme	5	5

Notes to the Financial Statements

For the year ended 31 March 2023.

7. Staff numbers and costs

The average monthly number of employees (including senior officers) was:

	2023 Number	2022 Number
Operations	205	215
Purchasing	66	67
Administration	47	45
	318	327

Their aggregate remuneration comprised:

	2023 £'000	2022 £'000
Wages and salaries	9,844	9,448
Social security costs	981	859
Defined benefit pension scheme costs (see note 18)	3,839	4,001
	14,664	14,308

8. Operating Profit

Operating profit is stated after charging/(crediting):

	2023 £'000	2022 £'000
Staff costs (excluding Agency costs)	13,296	12,564
Audit fees payable to the organisation's auditors	32	29
(Profit)/loss on disposal of tangible fixed assets	(15)	(4)
Impairment of Inventory	(85)	56

Notes to the Financial Statements

For the year ended 31 March 2023.

9. Exceptional items

	2023 £'000	2022 £'000
Exceptional items	-	250

The exceptional item relates to a non-cash adjustment for the loan with Leicestershire County Council (for the purchase of the Grove Park premises in 2005) to correct the historical loan balance.

10. Interest Receivable

	2023 £'000	2022 £'000
Bank interest	248	19

11. Interest Payable

	2023 £'000	2022 £'000
Interest payable on long term loan	178	210
Pension interest cost and expected return on pension assets	575	571
Other interest payable	-	-
	753	781

Notes to the Financial Statements

For the year ended 31 March 2023.

12. Intangible assets

	IT Software £'000
Cost	
At 1 April 2022	1,628
Additions	48
Disposals	-
Transfers	-
At 31 March 2023	**1,676**
Amortisation	
At 1 April 2022	1,025
Charge for the year	289
Disposals	
At 31 March 2023	**1,314**
Net book value	
At 31 March 2022	604
At 31 March 2023	**362**

Notes to the Financial Statements

For the year ended 31 March 2023.

13. Tangible fixed assets

	Land & Buildings £'000	Assets Under Construction £'000	Vehicles, Plant & Equipment £'000	Total £'000
Cost				
At 1 April 2022	18,000	-	4,590	22,590
Additions	54	344	433	831
Disposals	-	-	(641)	(641)
Revaluation	206	-	-	206
At 31 March 2023	**18,260**	**344**	**4,448**	**22,986**
Depreciation				
At 1 April 2022	-	-	3,403	3,403
Charge for the year	196	-	447	643
Disposals	-	-	(641)	(641)
Revaluation	(196)		-	(196)
At 31 March 2023			**3,208**	**3,208**
Net book value				
At 31 March 2022	18,000	-	1,187	19,187
At 31 March 2023	**18,260**	**344**	**1,173**	**19,777**

The historical cost of revalued land and buildings are £12,230,000 (2022: £12,176,000).

Assets Under Construction relates to third party costs for the construction of a warehouse extension at our Grove Park site.

14. Stocks

	2023 £'000	2022 £'000
Goods for resale	10,262	6,963
	10,262	6,963

Notes to the Financial Statements

For the year ended 31 March 2023.

15. Debtors

	2023 £'000	2022 £'000
Amounts falling due within one year:		
Trade debtors	7,558	7,548
Prepayments and accrued income	1,394	1,243
Other debtors	43	107
Amounts due from related parties	750	639
	9,745	9,537

16. Creditors – amounts falling due within one year

	2023 £'000	2022 £'000
Trade creditors	7,221	4,824
Other taxation and social security	228	271
Accruals and deferred income	2,277	2,753
VAT payable	695	1,118
Other creditors	277	363
Loans repayable within one year	500	500
	11,198	9,829

17. Creditors – amounts falling due after more than one year

	2023 £'000	2022 £'000
Long Term Loan	3,250	3,750
	3,250	3,750

The long-term loan is an agreement with Leicestershire County Council, and relates to a loan for the Grove Park Land and Buildings, with the agreement to repay a capital amount of £500,000 each financial year as well as interest. Interest is charged at a fixed rate of 4.54%. Leicestershire County Council took out the loan with the Public Works and Loans Board on behalf of ESPO in 2005 and recharge all interest and repayment costs to ESPO. The loan will be fully repaid in 2030.

Notes to the Financial Statements

For the year ended 31 March 2023.

18. Employee benefits

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 full actuarial valuation as at 31 March 2022 identified that the funds assets were sufficient to meet approximately 100% 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 2022/23, ESPO paid an employer's contribution of £2,438k (2021/22: £2,256k), into the Pension Fund, representing an average 22.3% 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 2022/23 these amounted to £12k (2021/22 - £12k), representing 0.2% of pensionable pay.

The FRS102 balance sheet position as at 31 March 2023 is £nil (31 March 2022 – £20.2m).

Notes to the Financial Statements

For the year ended 31 March 2023.

18. Employee benefits (Continued)

Amounts recognised in the Income Statement in respect of these defined benefit schemes are as follows:

	2023 £'000	2022 £'000
Current service cost	3,839	4,001
Past service cost	-	-
Net interest cost	575	571
	4,414	4,572

Recognised in Other Comprehensive Income:

	2023 £'000	2022 £'000
Changes in financial assumptions	27,431	5,417
Changes in demographic assumptions	348	317
Other experience	(3,864)	(132)
Return on assets excluding amounts included in net interest	(1,719)	3,492
Total remeasurements recognised in Other Comprehensive Income	22,196	9,094

The amount included in the Balance Sheet arising from the organisation's obligations in respect of its defined benefit schemes is as follows:

	2023 £'000	2022 £'000
Present value of defined benefit obligations	(42,436)	(62,376)
Fair value of scheme assets	42,439	42,159
Net asset/(liability) recognised in the balance sheet	3	(20,217)

The Present value of defined benefit obligations shows the underlying commitment that the organisation has in the long run to pay postemployment – retirement benefits. This total liability has a substantial impact on the net worth of the organisation as recorded in the Balance Sheet. However, statutory arrangements for funding the defined benefit obligations results in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the actuary.

Notes to the Financial Statements

For the year ended 31 March 2023.

18. Employee benefits (Continued)

Movements in the present value of defined benefit obligations were as follows:

	2023 £'000	2022 £'000
At 1 April	62,376	62,784
Service cost	3,839	4,001
Interest cost	1,764	1,326
Contributions from scheme participants	573	526
Benefits paid	(774)	(659)
Changes in financial assumptions	(27,431)	(5,417)
Changes in demographic assumptions	(348)	(317)
Other experience	2,437	132
At 31 March	42,436	62,376

Movements in the fair value of scheme assets were as follows:

	2023 £'000	2022 £'000
At 1 April	42,159	35,789
Interest income on plan assets	1,189	755
Contributions from the employer	2,438	2,256
Contributions from scheme participants	573	526
Benefits paid	(774)	(659)
Return on assets (excluding amounts included in net interest)	(1,719)	3,492
Other experience	(1,427)	-
At 31 March	42,439	42,159

Notes to the Financial Statements

For the year ended 31 March 2023.

18. Employee benefits (Continued)

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. The Local Government Pension Scheme assets comprised:

	2023 £'000	2023 % of total	2022 £'000	2022 % of total
Equity Securities				
Consumer	4	0%	49	0%
Manufacturing	21	0%	6	0%
Energy and Utilities	44	0%	60	0%
Financial Institutions	13	0%	85	0%
Health and Care	7	0%	34	0%
Information technology	8	0%	17	0%
Other	35	0%	99	1%
Debt Securities				
UK Government	1,955	5%	2,116	8%
Other	179	0%	79	1%
Private Equity	2,906	7%	2,819	5%
Real Estate				
UK Property	3,008	7%	3,244	7%
Investment Funds and Unit Trusts				
Equities	18,583	44%	19,411	40%
Bonds	-	0%	-	4%
Hedge Funds	-	0%	-	0%
Commodities	1,090	3%	1,058	4%
Infrastructure	3,472	8%	2,204	5%
Other	10,139	24%	8,659	20%
Derivatives				
Foreign Exchange	20	0%	87	0%
Cash and Cash Equivalents	955	2%	2,129	3%
Total	**42,439**	**100%**	**42,159**	**100%**

Notes to the Financial Statements

For the year ended 31 March 2023.

18. Employee benefits (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. The principle assumptions used by the actuary have been:

	2023	2022
Key assumptions used:		
Discount rate	4.7%	2.7%
Pension Increase Rate (CPI)	3.0%	3.2%
Salary Increase Rate	3.4%	3.6%

Mortality assumptions:

Life expectancy is based on the Fund's VitaCurves in line with the CMI 2021 model. The figures below show the average future life expectancies at age 65, based on these assumptions.

For future pensioners, figures assume members aged 45 as at the last formal valuation.

	2023 years	2022 years
Current Pensioners:		
Males	21.3	21.5
Females	24.4	24.0
Future Pensioners:		
Males	22.1	22.4
Females	25.7	25.7

Notes to the Financial Statements

For the year ended 31 March 2023.

18. Employee benefits (Continued)

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 2023 are:

	Approximate increase in Employer Liability	Approximate Monetary Amount £'000
0.1% decrease in Real Discount Rate	2%	934
1 year increase in member life expectancy	4%	1,697
0.1% increase in Salary Increases Rate	0%	123
0.1% increase in the Pension Increase Rate	2%	824

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

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.

Notes to the Financial Statements

For the year ended 31 March 2023.

18. Employee benefits (Continued)

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 120% over the next 15 years. Funding levels are monitored on an annual basis. The last triennial valuation was completed on 31 March 2022. Increases in employer's contribution rate that are required within the valuation will be phased in over a three year period commencing 1 April 2023. The contributions payable by ESPO under this valuation are:

2023/24	23.9% of pensionable pay + £403k
2024/25	23.9% of pensionable pay + £417k
2025/26	23.9% of pensionable pay + £432k

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 anticipates to pay £2.6m of employer contributions to the scheme in 2023/24 and the weighted average duration of the defined benefit obligation for scheme members is 25 years.

19. Subsequent events

The consortium has concluded that there are no subsequent events which require any adjustment to the financial statements for the year ended 31st March 2023.

Notes to the Financial Statements

For the year ended 31 March 2023.

20. Related party transactions

Members

Members of the Management Committee have a direct control over the ESPO financial and operating policies. No payments are made by ESPO to any members of the Management Committee. During 2022/23 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 2022/23 no officers declared a pecuniary interest in any contractual or financial transactions.

ESPO consortium members

Sales

ESPO provides goods and services to all consortium member authorities, including LEA schools. All transactions are at market value and in the normal course of trading. In 2022/23 these sales totalled £36,328k (2021/22: £31,179k). The breakdown by consortium member authority is as follows:

	2023 £'000	2022 £'000
Cambridgeshire County Council	5,850	5,078
Leicestershire County Council	5,636	4,989
Lincolnshire County Council	7,114	5,860
Norfolk County Council	9,570	8,155
Peterborough City Council	2,094	1,944
Warwickshire County Council	6,064	5,154
Total	**36,328**	**31,179**

Purchases

Leicestershire County Council is the consortium member whom acts as the 'servicing authority' and as such provides services to ESPO in the form of various corporate services. All transactions occur at cost and are in the normal course of trading. During 2022/23 transactions with Leicestershire County Council were:

	2023 £'000	2022 £'000
Loan repayment (see note 17)	500	500
Loan interest	178	210
Services	921	812
Total	**1,599**	**1,522**

Notes to the Financial Statements

For the year ended 31 March 2023.

20. Related party transactions (Continued)

Debtors and creditors

	Debtors		Creditors	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Cambridgeshire County Council	372	311	-	-
Leicestershire County Council	276	358	-	-
Lincolnshire County Council	406	539	-	-
Norfolk County Council	707	526	-	-
Peterborough City Council	98	98	-	-
Warwickshire County Council	395	357	-	-
Total	**2,254**	**2,190**		

ESPO Trading Limited

ESPO Trading Limited (ETL), and it's subsidiary Eduzone Limited, are companies registered in England and Wales which are under common control – ETL is owned by the same consortium members as ESPO which are referred to above. ESPO sells goods and services to ETL and Eduzone at cost. These are summarised below:

	2023 £'000	2022 £'000
ESPO Trading Limited		
Sales	729	166
Debtors	30	36
Loan	310	310

Interest on the loan from ESPO to ESPO Trading Limited accrued at 5% above LIBOR until 31 December 2021, changing to 5% above SONIA from 1 January 2022. The loan is unsecured and is repayable on demand.

	2023 £'000	2022 £'000
Eduzone Limited		
Sales	420	516
Debtors	139	81

Notes to the Financial Statements

For the year ended 31 March 2023.

21. Reconciliation of net movements in funds to net cash inflow from operating activities

	2023 £'000	2022 £'000
Operating profit for the financial year	**4,174**	**4,026**
Adjustments for:		
Depreciation of property, plant and equipment	643	478
Amortisation of intangible assets	289	247
Profit on disposal of property, plant and equipment	(15)	(4)
Remeasurement of net defined benefit liability	1,368	1,745
Decrease/(increase) in trade and other receivables	(193)	(508)
Decrease/(increase) in inventories	(3,298)	(178)
Increase/(decrease) in trade and other payables	1,370	1,189
Total	**4,338**	**6,995**

ESPO

Barnsdale Way, Grove Park, Enderby, Leicester LE19 1ES
T. 0116 265 7878

espo.org

This page is intentionally left blank

Annual Governance Statement 2022/23

1. INTRODUCTION

The Consortium Treasurer is responsible for the preparation of the Consortium's Statement of Accounts in accordance with proper accounting practices. 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 and ESPO has previously decided to prepare financial statements under the Financial Reporting Standard applicable in the UK (FRS102) using the UK GAAP Framework

As ESPO is not a Local Authority it also has no requirement to prepare an Annual Governance Statement (AGS) following the CIPFA/LASAAC Code of Practice in Local Authority Accounting. However, recognising that such a document is a useful tool in demonstrating good corporate governance to its stakeholders, and the Management Committee, the AGS has been prepared for this year.

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. Note that ESPO isn't in receipt of public money for the purpose of providing statutory services in the same way as a Local Authority, rather, ESPO generates its own funds from trading activity. The Consortium members (and through them ESPO) also have 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 (defined as the constituent members) to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement.

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. ESPO's governance framework comprises the systems and processes, cultures and values by which ESPO is directed and controlled. It enables ESPO 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 ESPO'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 ESPO 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 Framework requires ESPO to review arrangements against its 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. The AGS has been constructed by undertaking:

- A review of the effectiveness of the system of internal control
- Reviewing other forms of assurance

4. REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

Under ESPOs constitution it is required to 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.

ESPO must (each financial year): -

(a) conduct a review of the effectiveness of the system of internal control, and,
(b) ESPO has also elected to 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 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.

Under this self-assessment, no significant governance concerns and no key weaknesses were identified. Areas where smaller improvements were identified have been added to an Action Plan to support the monitoring of progress.

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 reviewed in 2023.

Internal Audit Service

During the financial year 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 2022-23 the Head of Internal Audit Service (HoIAS) conducted a self-assessment of LCCIAS' conformance to the PSIAS. The self-assessment confirmed that the County Council's internal audit activity generally conforms with the International

Standards for the Professional Practice of Internal Auditing. The HoIAS also light touch reviewed the service's Quality Assurance and Improvement Programme (QAIP) and found that some actions were overdue.

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 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 and project groups, 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 Finance & Audit Subcommittee in October. 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 2022-23 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

No significant governance, risk management or 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.

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 was reviewed by the Finance & Audit Subcommittee in February 2023. 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

Following a tender exercise in early 2022, which was supported by the Chief Officer's Group, ESPO's external auditor was changed to Fortus Audit LLP. Fortus undertook the external audit for 2021/22 and no significant concerns over governance or internal control were identified. During 2023, Fortus Audit LLP sold their East Midlands business to TC Group Limited, who have taken over the audit of ESPO. TC Group will present their findings on the 2022/23 audit 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 2022/23 report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control.

Audit opinion for the Statement of Accounts / Financial Statements:

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 2022/23, ESPO's Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation. The auditors also issued an 'unqualified' opinion for 2022/23.

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

Management Committee receives frequent (at least quarterly) financial and operational reports, which includes information relating to:

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

This is supplemented by further reporting to the Chief Officers Group and the Finance and Audit Subcommittee. The Leadership team receive information on a more frequently basis, with structured weekly and monthly performance reporting.

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 (or the Audit Manager) 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.

The role, purpose, governance and scrutiny arrangements tor ESPO, ESPO Trading Limited and Eduzone, was reported to Leicestershire County Council's Corporate Governance Committee on 21 November 2022.

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 not described in the 1970 Act and associated regulations – e.g. Housing Associations, Charities and Voluntary Organisations. The Trading is governed under the Companies Act 2006, its Articles of Association and Shareholder Agreement.

The ESPO Management Committee receives regular financial and business information to allow its oversight of ESPO Trading Limited's contribution to ESPO's wider business objectives. This includes its international trading, services to those outside of local government including the private sector, Early Years providers, and strategic relationship with Sainsbury's.

ESPO Trading Limited has it's own Board of Directors who oversee the running of the company on behalf of the member shareholders, in addition to the reporting provided to Management Committee. The Board currently comprises of 2 ESPO officers, an officer representative from Leicestershire County Council (in capacity as servicing authority of the Consortium), an officer representative from the remaining members, and an independent non executive director.

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. Governance for Eduzone has now been incorporated into ESPO Trading Limited..

7.GOVERNANCE ISSUES

A senior Management Group reviewed the draft AGS and determined if there were any areas for improvement. No significant governance issues were identified during 2022/23. The group comprised of 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 Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Commercial Financial Controller

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 2022/23 were sound.

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2022/23 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.

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, inflation, and increases in the cost of living, 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 affecting ESPOs global supply chain network, with issues such as the war in Ukraine having a direct and indirect impact on suppliers' ability to produce and transport goods around the world.

- Future challenges around cost inflation, with issues like global supply chain problems, UK inflation, and UK cost of living increases directly affecting our cost base.

- Future challenges around ESPOs ability to recruit and retain staff in an increasingly competitive post-Brexit and post-Covid employment market.

- 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.

- Legislation as it develops will also be crucial in the future basis of public procurement, IR35 employment legislation or indeed the embedding of GDPR. A review and change to public sector procurement legislation (the Procurement Bill) is in the final stages of the parliamentary approval process before Royal Assent and is intended to set out the new rules and procedures following the repeal of the EU based procurement regulations; this is likely to impact on the public sector approach to procurement, and the compliance support provided by ESPO.

- The impact of the upcoming warehouse extension. Both in terms of ensuring the appropriate governance and risk management remains in place as the organisation moves from the planning to the construction phase, and also in terms of ensuring that ESPO is able to make best use of the investment.

- 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. This includes the ongoing development of hybrid working which is being done using guidelines and best practice from Leicestershire County Council.

- Cyber Risks. This is covered under the IT section of the Corporate Risk Register with ESPO continually monitoring and improving its defences.

We are satisfied our existing governance arrangements are sufficiently equipped to allow us to respond to these challenges.

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 Wright
Chair, ESPO Management Committee

Appendix - AREAS FOR FURTHER DEVELOPMENT IN 2023-24

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	**Old/New**	**Owner**	**Action to Develop Areas Further**	**Update - Sep 23**	**Deadline**	**Completed?**
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Old	MC	Review the operation of the code of conduct/ethical standards for suppliers.	Introduced onto the 23/24 LCC Internal Audit work plan who have been scoped into supporting a review of supplier compliance surrounding rebates and are currently finalising the suppliers/sites to review/visit.	Spring 2024	
	Old	DG	Develop register to monitor the key areas where laws/regulations compliance is required, levels of risk and areas where action is required.	Delayed due to staff vacancies, but in the plan for Spring/Summer 2024. No concerns held over compliance with laws and regs, this was to improve oversight of compliance and improve governance, rather than correct any specific shortfall.	Summer 24	
Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefit	Old	GF	Define a target, and an accompanying strategy, to reduce carbon emissions.	Included on the ESPO risk register with resource now allocated within ESPO to explore ESPO's role in supporting this agenda. Individual supported with training and working group created to consider current good practice within ESPO and our market and help shape next steps. Emissions reporting included in 23/24 Financial Statements for the first time and provide base against which performance can be measured.	Ongoing	
Principle F. Managing risks and performance through robust internal control and strong public financial management	Old	DAG	Following completion of the ongoing cyber review, complete/implement the remaining recommendations as appropriate.	Audit recommendations significantly cleared, with 1 high importance recommendation relating to legacy systems resolved/completed and awaiting final sign off by Internal Audit.	Dec-23	

MANAGEMENT COMMITTEE – 15 NOVEMBER 2023

WAREHOUSE EXTENSION UPDATE

REPORT OF THE DIRECTOR

Purpose of Report

1. The purpose of this report is to provide an update to Management Committee on the project to develop the Grove Park site to accommodate additional warehouse capacity as part of the agreed long-term financial plan.

Background

2. The original business case to extend the Grove Park warehouse was approved by the Management Committee on 24 November 2021, following detailed analysis which highlighted that the existing Grove Park facility did not have enough capacity to meet the long-term needs of the organisation. This study confirmed the business benefits to ESPO of creating additional storage capacity at its operating centre to enable growth and manage supply chain risk. Sales through the warehouse have increased by 40% over the last ten years; from £41.7m in 2013 to a forecasted £58.3m in 2024. During this time ESPO has extended its reach to supply customers across the country. The new warehouse extension provides a means for ESPO to respond to competitive threats and market opportunities. A funding model that utilises the cash reserves build up demonstrated the overall value created.

Progress to Date

3. Building consultants were appointed through a Scape framework in 2022 and subsequently a building contractor, Galliford Try, was appointed following a tender process. The new facility will provide an additional 26,000 square foot of space and by using narrow aisle storage will enable the organisation to store and additional 5,850 pallets. The facility will be fully sprinklered in line with the existing fit out protocols. This represents an increase of 50% pallet positions to ESPO's overall storage capacity. ESPO currently relies on outside storage of exercise books and this stock will be re-located to the Leicester warehouse. The new facility will enable this product range to be stored on-site and subsequently provide the means to improve operational and efficiency through less congestion. This will include powered conveyors to move picked products from the bulk store to the packing stations. Thus reducing agency costs and improving staff wellbeing.

4. ESPO's Supply Chain panel and Product Availability Groups continue to focus on availability performance and improving supply chain resilience. The team will also continue to review slow moving stock and product duplication to ensure that

products are appropriately identified and priced as clearance. The Sales and Marketing teams are engaging with customers to obtain feedback on ESPO's existing product range and to give customers an opportunity to shape the future offer based on their needs. To support this, the team is also reviewing ESPO's website to identify any commonly searched for products where ESPO currently do not have a product to offer. The team will also be using ESPO's benchmarking tool Skuuudle to support this work and to identify any areas where margin can be improved.

5. Strategic supplier relationships have identified that there may be opportunities to improve margin through considering direct container imports into ESPO, a Free on Board (FOB) delivery model and bulk buying on improved terms. The team will consider options to utilise space in a structured way with a staged approach so not to adversely impact cashflow. The Product Management team is focusing on new products and potential new ranges of products which will likely include expanding ESPO's own brand range of products (SmartBuy), increasing the number of class packs, as well as considering any current direct delivered products which could be held in stock. This work is also focusing on increasing the number of sustainable products or those with environmentally friendly credentials and converting existing products to a more sustainable alternative. Product Managers are also completing a competitor gap analysis through engaging with our suppliers to ensure that ESPO have an alternative option to any volume products sold offered by our competitors.

Overall Timescales

6. The programme of work started in October 2023 and is due to be completed by September 2024. A Project Board created in 2022 will continue to provide governance and oversight, supported with specialist staff from LCC. A 'Ground Breaking' ceremony will take place on 9th November with Councillor Maggie Wright and members of the ESPO team and provide a good PR opportunity.

Conclusion

7. In conclusion the new warehouse extension is a major landmark in ESPO's evolution and will provide new opportunities for ESPO to remain a preeminent supplier in the education sector.

8. An appendix attached provides some visual updates.

Resources Implications

None arising directly from this report.

Recommendation

The Management Committee is asked to note and support the contents of this report.

Officer to Contact

Kristian Smith, Director
k.smith@espo.org
Tel: 0116 265 7887

Appendix

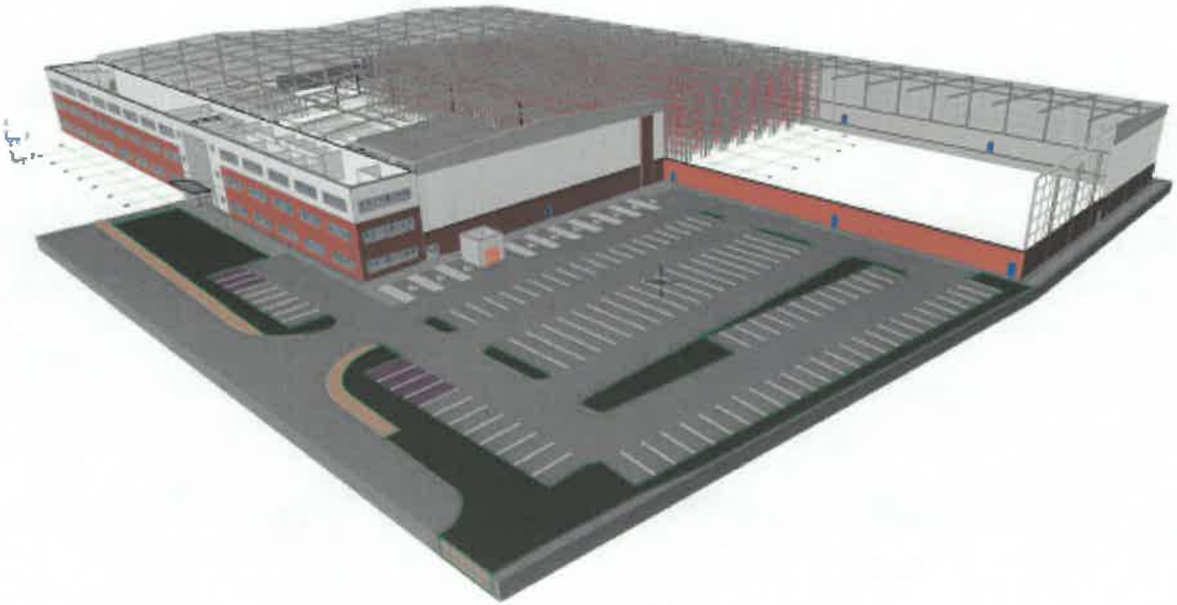
Pictures of the site.

This page is intentionally left blank

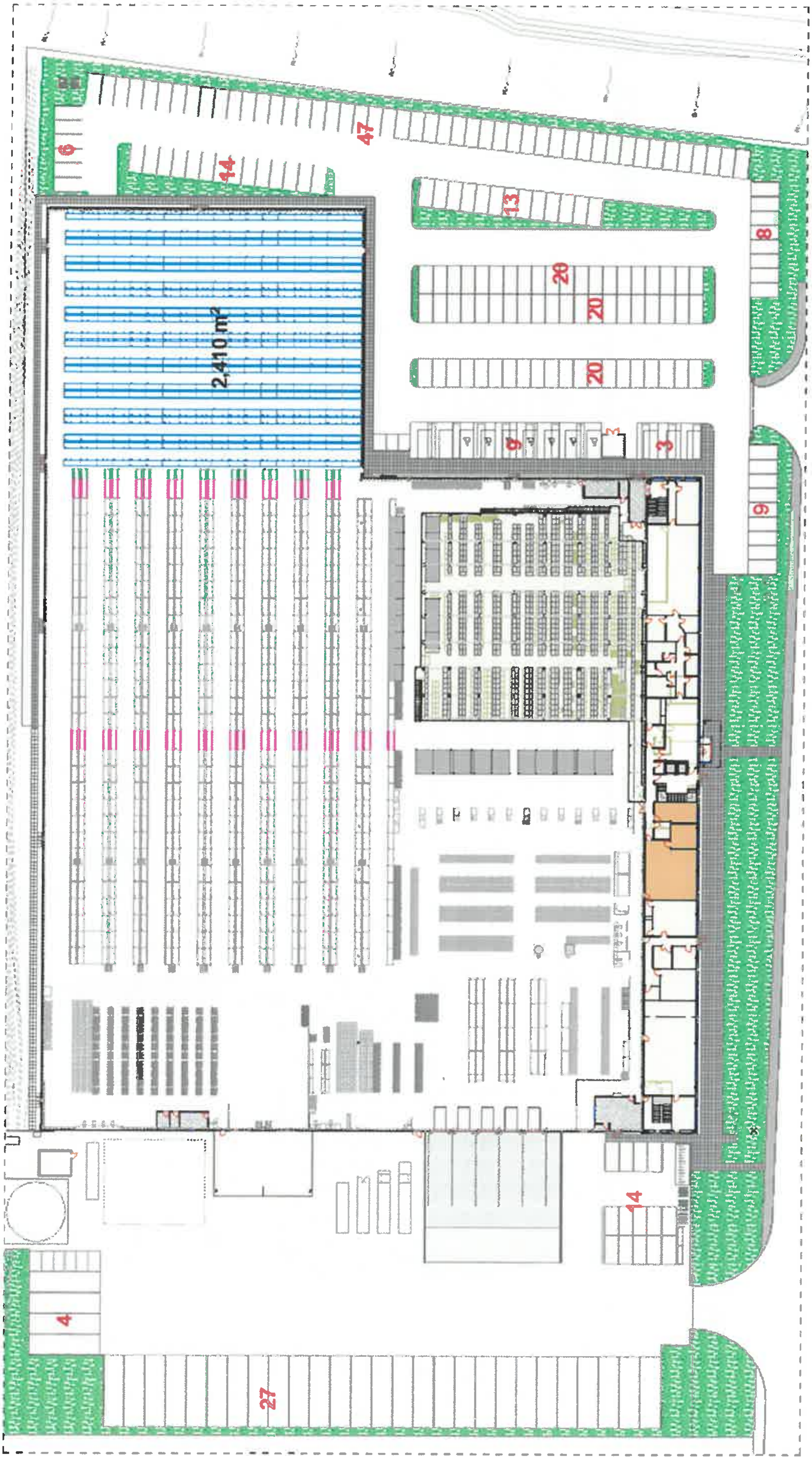

1.0 INTRODUCTION
1.1 Purpose Of This Statement
1.2 Background

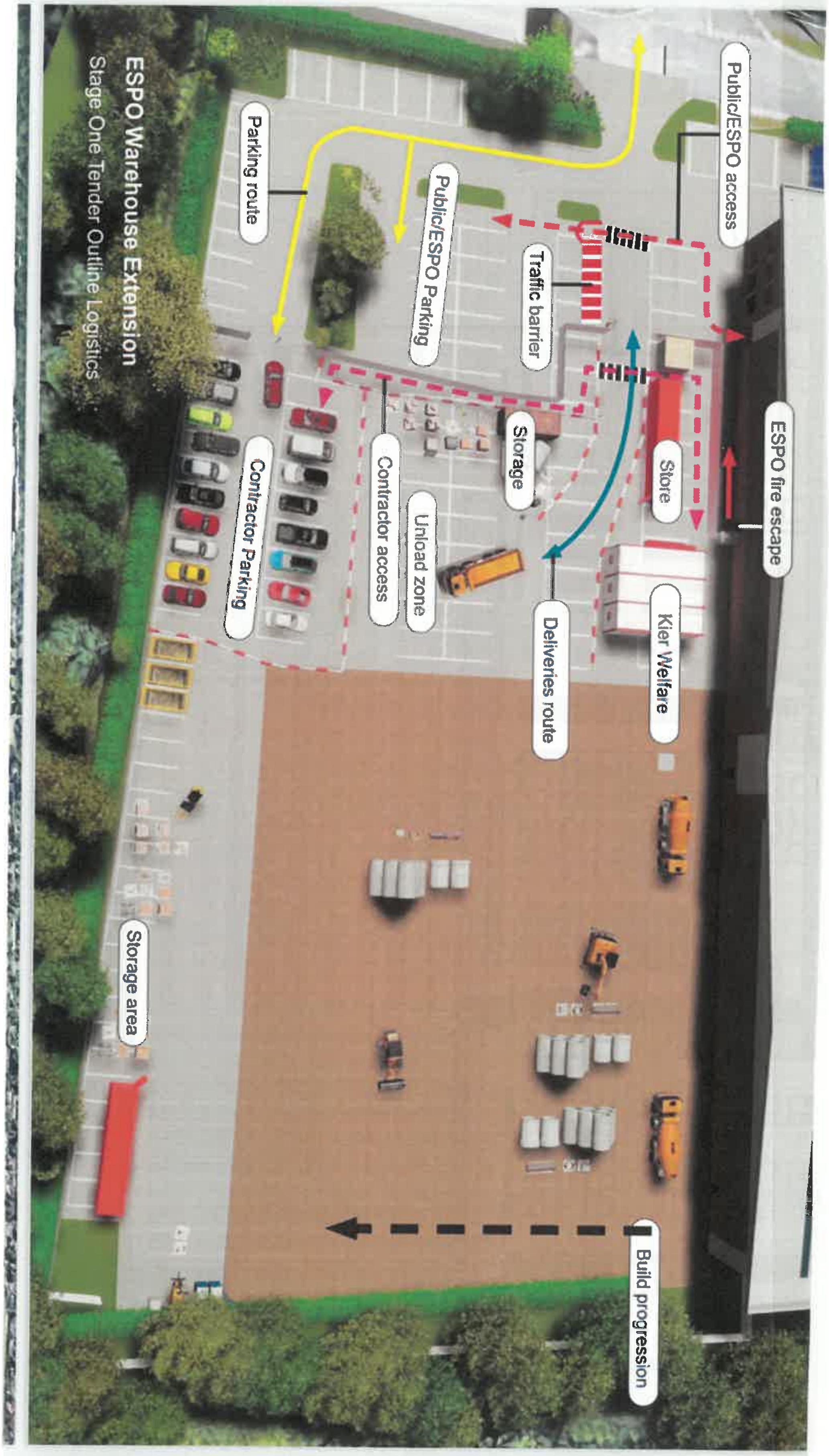
ESPO

Schematic – Perspective View



espo.org


2,410 m²
47
14
6
13
8
20
20
20
9
3
9
14
4
27


ESPO Warehouse Extension
Stage One Tender Outline Logistics
Parking route
Public/ESPO Parking
Traffic barrier
Public/ESPO access
ESPO fire escape
Storage
Store
Contractor Parking
Contractor access
Unload zone
Deliveries route
Kier Welfare
Storage area
Build progression

ESPO

MANAGEMENT COMMITTEE – 15 NOVEMBER 2023

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 update provided to Members in September 2023.

Finance update

Summary

Year to September 2023 – Period 6					
£m	Actual	B/(w) than Budget		B/(w) than LY	
Stores Sales	35.3	(0.1)	(0.2%)	4.3	13.7%
Direct Sales	10.6	(0.1)	(0.6%)	(1.7)	(13.9%)
Rebate plus fee income	6.5	0.9	16.4%	1.1	19.5%
Total Sales (Exc Gas)	**52.5**	**0.8**	1.5%	**3.6**	7.4%
Stores Margin %	31.4%	1.1%		2.4%	
Directs Margin %	15.6%	0.9%		0.6%	
Total Gross Margin	20.3	1.6	8.3%	3.1	17.7%
Total Expenditure	13.1	0.3	2.1%	(1.1)	(7.4%)
Trading Surplus	**7.2**	**1.8**		**2.0**	
Trading Surplus %	13.7%	3.3%		3.1%	

2. After 6 months, **a surplus of £7.2m has been made which is £1.8m better than budget** and £2.0m higher than last year.

3. Rebate income from frameworks is performing very well at +£0.9m ahead of budget and this is a part of ESPO's business which benefits from inflation. ESPO's prudent approach to budgeting framework rebate recognises the significant impact under/over delivery has on the ESPO bottom line (it has a 100% gross profit margin) and longer-term nature of the contracting income that drives it. The budget assumed slightly higher growth in the second half of the year and at this point it is not expected that the budget will be exceeded in the second half of the year to the same extent as in the first half of the year.

4. In the Catalogue business the market remains very competitive but ESPOs offer remains strong. ESPO continues to gain market share through the combination of great availability, competitive pricing, and a reliable service. Despite increasing prices in the 1 April catalogue due to supplier inflation, catalogue sales have been in line with budget. ESPOs assumptions of a small volume reduction from the wider pressures on school finances have proved both prudent and

robust. The margin in the first half of the year has benefitted from warehouse stock bought at last year's lower prices, and some pressure on the margin is expected in the second half of the year.

5. Costs continue to be tightly controlled with expenditure of £13.1m better than budget by £0.3m.

6. For the full year, the budget is a surplus of £6.2m, and at September ESPO is clearly ahead of this. Having now passed the peak trading period, the second half of the year is quieter – December is always an especially quiet month and lower trading is also expected in March due to the earlier timing of Easter. ESPO remains cautious about demand in the second half of the year, especially Q4, with feedback from schools and BESA indicating weak confidence remains and a likelihood of school spend being 'reigned in' now their core annual purchases have been made.

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	35.3		(0.1)	(0.2%)	4.3	13.7%
Direct Sales	10.6		(0.1)	(0.6%)	(1.7)	(13.9%)
Rebate income	6.5		0.9	16.4%	1.1	19.5%
Total Sales	**52.5**		**0.8**		**3.6**	
Stores Margin £m and %	11.088	31.4%	0.4	1.1%	2.1	2.4%
Directs Margin £m and %	1.659	15.6%	0.1	0.9%	(0.2)	0.6%
Rebate income	6.5		0.9	16.4%	1.1	19.5%
Gas Margin	0.2	1.5%	(0.0)	(1.5%)	(0.0)	(1.6%)
Catalogue Advertising	0.6		(0.1)		(0.1)	
Misc	0.3		0.3		0.3	
Total Gross Margin	**20.3**	**38.7%**	**1.6**	**2.4%**	**3.1**	**3.4%**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	11.7		5.4	85.3%	4.4	60.7%
Gas Margin	0.2	1.5%	(0.0)	(1.5%)	(0.0)	(1.6%)

7. Total sales to September 2023 were £52.5m, and are £0.8m ahead of budget and £3.6m higher than last year. Rebate income is performing well with higher collections year to date which are likely to benefit the full year.

8. **Stores sales were £35.3m and in line with budget**. Trading has been competitive and ESPO has seen customers making use its our loyalty-based promotions to secure the best value for money. Price inflation applied on 1 April was 19%, and the budget assumed a volume reduction of 8% recognising the funding pressures within schools from inflation, pay, energy etc. Demand/volume is largely in line with this expectation but it was necessary to run an additional promotion in May 2023 to deliver this.

9. **Gross profit margin % for Stores at 31.4% is ahead of budget**. Last year the margin started to reduce as a result of numerous price rises from suppliers linked to inflation and volatility in the global supply and energy markets. This year has

been far more stable. The margin % also benefitted at the start of this year from warehouse stock having been bought at last year's cheaper prices, especially exercise books and the margin is expected to come under more pressure in the second half of the year.

10. **Directs sales were £10.6m and are £0.1m lower than budget.** Price inflation applied on 1 April was 15%, and the budget assumed a volume reduction of 20%. This recognised the exceptionally high levels of demand experienced last year and the funding pressures in schools impacting larger purchases, such as classroom furniture and equipment replacement, which could be delayed. ESPO is seeing lower demand than budgeted as schools prioritise their spend but has benefitted from several large refurbishment projects with schools which have supplemented income.

11. **Gross profit margin % for Directs at 15.6% is +0.9% ahead of budget**, but this is largely due to the mix of product sold.

12. **Rebate income of £6.5m is £0.9m ahead of budget** and up 19% on last year. It continues to perform well, benefitting from inflation and with a good pipeline in place of contracts secured for the future.

13. **Other income is +£0.3m ahead of budget,** benefitting from higher interest rates on ESPO's cash deposits.

14. **Overall gross profit margin at £20.3m is £1.3m better than budget.**

Expenditure

Expenditure			
£m	**Actual**	**B/(w) than budget**	**B/(w) than LY**
Employee Costs			
Staff	7.3	0.7	(1.0)
Agency/Contract	1.2	(0.6)	0.1
Total	**8.6**	**0.2**	**(0.9)**
Overhead Expenses			
Transport	1.6	0.2	(0.0)
Warehouse	0.4	(0.0)	(0.0)
Procurement	0.1	(0.0)	(0.0)
Sales & Marketing	0.5	(0.0)	0.1
Finance	1.0	(0.1)	(0.2)
IT	0.6	0.0	0.0
Directorate	0.3	0.0	(0.1)
Total	**4.6**	**0.1**	**(0.2)**
Total Expenditure	**13.1**	**0.3**	**(1.1)**
As % of Total Sales Excluding Gas	**25.0%**	**0.9%**	**(0.3%)**

15. **Total expenditure of £13.1m is £0.3m lower than budget.** ESPO retains a continued focus on strong cost control across all areas.

16. **Expenditure as a % of sales** is one KPI which allows ESPO to measure cost control in relation to sales. This KPI was 25.0% and is 0.9% better than budget and shows costs are being controlled in relation to sales activity and inflationary growth. Looking ahead, ESPO can foresee a need to increase our cost base and its % of sales. Sales are significantly ahead of the medium term financial strategy and in order to maintain the planned growth rates assumed in the MTFS ESPO anticipates needing to accelerate investment that was also planned in the MTFS.

ETL/Eduzone

17. ETL and Eduzone are ESPOs limited companies which service the private sector.

ETL and Eduzone			
£k	**Actual**	**B/(w) than Budget**	**B/(w) than LY**
Eduzone Sales	317	(188)	63
ETL Sales	405	71	(218)
Total Sales	722	(116)	(155)
Eduzone Gross Margin	117	(60)	30
Eduzone Gross Margin %	37.0%	1.9%	2.9%
ETL Gross Margin	127	32	27
ETL Gross Margin %	31.3%	2.8%	15.2%
Total Gross Margin	244	(28)	57
Eduzone Expenditure	(144)	26	(49)
ETL Expenditure	(58)	(5)	8
Total Expenditure	(203)	21	(41)
Trading Surplus	41	(7)	16
Trading Surplus %	5.7%	(0.0%)	2.9%

18. Total sales of £722k are slightly behind budget.

19. ETL, the business serving international and private sector customers, has started strongly with sales ahead of budget and some earlier ordering ahead of the peak summer international period. (Last year ETL benefited from a large one-off private sector contract).

20. Eduzone, the business focusing on early years in the UK, is behind budget, but ahead of last year. The nursery market faces similar financial pressures to schools but lacks some of the additional funding that was announced for schools in Autumn 2022. Combined with an increase in nursery hours for parents, which are less lucrative for nurseries, this puts additional financial pressure on the sector.

21. Margin and expenditure is largely in line with budget and costs are being controlled.

22. Overall a £41k surplus has been generated, this is in line with budget and slightly ahead of last year.

Full Year Expectation

23. For the full year, the budget is a surplus of £6.2m, and at September ESPO is clearly ahead of this. Looking ahead there are several risks and opportunities:

    a. BESA and school feedback indicates weak consumer demand being expected across the rest of the year and ESPO can foresee an element of risk in the Catalogue budget, especially in Q4.

    b. Stores margin has been ahead of budget and at the start of the year benefitted significantly from the stock in the warehouse that was purchased last year at cheaper prices. ESPO does not expect to benefit from this in the second half of the year now that much of this has sold.

    c. ESPO remains cautious about Directs sales and expect sales to remain behind budget for the rest of the year as schools continue to tighten spend and delay spending on ‘big ticket’ furniture items.

    d. Rebate income has been tracking well all year, benefitting from inflation and continued customer growth. The budget was prudent and ESPO is optimistic about performance in the second half, but it is important to know that the budget was slightly weighted to the second half of the year. As a result, performance in the second half is not expected to exceed the budget as much as it has in the first half of the year.

    e. December usually makes a loss given the Christmas closure (for ESPO and schools) and it being a slow month for rebate collection. ESPO also expects March 2024 to be a slow month as a result of the Easter vacation period, with many schools breaking up 1 week earlier this year. This is, however, all budgeted.

    f. The pay award offer from employers was agreed on 1 November and remains in line with the budget assumption and the offer made.

    g. With commencement of the warehouse building works in the second half of the year, ESPO anticipates being able to undertake some additional repairs and consequential improvements to the site. These will generally be earlier than planned in the MTFS and whereas a result of already having contractors on site it becomes cost effective and convenient to do so. Depending on timing funding may be allocated to the renewals provision to allow for this.

24. Considering all of this, **the latest guidance for the full year is a trading surplus of £7.3m - £7.7m.** As ESPO progresses further into the year there remains an opportunity to increase further as more confidence is gained over customer demand, and rebate income, providing no material risks emerge.

ESPO P&L – September 2023

	Year to Date @ September 23					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	35,344		35,411	(0.2%)	31,088	
Direct	10,625		10,684	(0.6%)	12,336	
Rebate Income	6,517		5,601	16.4%	5,455	
Gas	11,656		6,289	85.3%	7,254	
Catalogue Advertising	583		656	(11.1%)	672	
Other Income	290		38	672.2%	36	
Total Sales	**52,486**		**51,697**		**48,879**	
Cost of Sales						
Stores	24,256		24,707		22,077	
Direct	8,966		9,115		10,481	
Gas	11,476		6,098		7,027	
Total Cost of Sales	**33,222**		**33,822**		**32,558**	
Margin						
Stores	11,088	31.4%	10,704	30.2%	9,010	29.0%
Direct	1,659	15.6%	1,569	14.7%	1,855	15.0%
Rebate Income	6,517		5,601		5,455	
Gas	180	1.5%	192	3.0%	226	3.1%
Catalogue Advertising	583		656		672	
Other Income	290		38		36	
Total Margin	**20,317**	38.7%	**18,760**	36.3%	**17,255**	35.3%
Warehouse and Transport						
Employee Costs						
Staff	3,152		3,575		2,526	
Agency/Contract	1,170		663		1,251	
Total	**4,322**		**4,238**		**3,777**	
Overhead Expenses						
Transport	1,610		1,828		1,582	
Warehouse	447		443		425	
Total Warehouse and Transpor	**6,379**	18.0%	**6,509**	18.4%	**5,783**	18.6%
Head Office						
Employee Costs						
Staff	4,186		4,494		3,837	
Agency/Contract	62		17		91	
Total	**4,248**		**4,511**		**3,927**	
Overhead Expenses						
Procurement	100		96		83	
Sales & Marketing	453		416		601	
Finance	1,000		897		814	
IT	618		627		630	
Directorate	338		353		243	
Total	**2,509**		**2,390**		**2,371**	
Total Head Office	**6,757**		**6,901**		**6,298**	
Total Expenditure	**13,136**	**25.0%**	**13,410**	**25.9%**	**12,082**	**24.7%**
Trading Surplus	**7,181**	**13.7%**	**5,350**	**10.3%**	**5,173**	**10.6%**

ETL Combined P&L – September 2023

ETL & Eduzone Results	Sep-23 YTD					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Sales	722.4		838.6		877.8	
Total Sales	**722.4**		**838.6**		**877.8**	
Cost of Sales						
Cost of Sales	478.4		566.6		690.9	
Total Cost of Sales	**478.4**		**566.6**		**690.9**	
Margin						
Margin	244.0		272.0		186.9	
Total Margin	**244.0**	33.8%	**272.0**	32.4%	**186.9**	21.3%
Expenditure						
Employee Costs	98.5		98.5		53.3	
Commission	0.0		0.0		0.8	
Carrier	50.9		53.5		22.2	
Marketing Expenses	33.1		44.2		67.0	
Consultancy	1.3		1.3		2.0	
Support / Legal Prof	0.0		0.0		2.5	
Accountancy	0.4		3.6		0.0	
Insurance	11.8		11.8		9.5	
Office Machine Maint / Software	3.0		2.0		1.5	
Merchant Services	1.4		2.6		0.9	
Other Expenses	2.2		6.1		2.1	
Total Expenditure	**202.7**	28.1%	**223.6**	26.7%	**161.8**	18.4%
Trading Surplus /(Deficit)	**41.4**	5.7%	**48.4**	5.8%	**25.1**	2.9%

ESPO Operational Progress

25. In September ESPO's distribution centre picked and dispatched 181,667 order lines, valued at £5.980m and the transport fleet with couriers made 25,648 deliveries. Warehouse picking was performed at a rate of 43 lines per hour against a target of 32 benefitting from larger promotional orders, and the error rate detected by QA was 1% against the budget of 3%. The average order value for stock orders in September was £267.14 compared to the budget of £233.80. Operational and IT costs year to September were £7.298m against a budget of £7.413m. Stores sales to September were in-line with budget. Stock availability

averaged 98% in September, stock value was £11.402m with a stock turn of 4.91.

26. The Customer Services team handled 7,583 calls across the four customer service channels in the busy back-to school period. Average wait times across all teams was 47 seconds. The team processed 33,633 customer orders valued at £5.7m. Online and electronic converted orders were at 85.6% of the total, aided by the new automated order processing system. The system transcribes order data onto the enterprise resource planning system (ERP) requiring minimal staff input, thus removing a bottleneck during peak trading. Direct orders currently valued at £1.881m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team and customers are kept informed of the estimated delivery date. ESPO recorded 7,018 responses to email enquiries using its ticketing system. The FEEFO customer rating was 76% reflecting some teething problems with the new ordering processing system which have now been resolved. ESPO has agreed an initiative to encourage customers to provide a FEEFO rating which should help to provide a more balanced overall insight into its performance rating.

27. Facilities management in September ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. The call points for the fire system were replaced due to age. The fall-protection equipment on the roof has been inspected and extended to cover the entire roof area. The facilities management (FM) team has been active in supporting the warehouse extension project; liaising with potential forklift truck (FLT) and racking suppliers and in considering the consequential improvement plan.

28. There was one minor injury reported in September. A warehouse operative cut his hand whilst using a safety knife. A Safety Alert was subsequently issued to warehouse staff reminding of importance of following the already defined safe system of work. Improvements have been made to the line marking within the warehouse with special emphasis on crossing points between mechanical handling equipment and pedestrian traffic to ensure staff vigilance. An audit plan from Leicestershire County Council in respect of site safety during the warehouse extension build programme was reviewed.

29. The IT helpdesk handled 525 enquiries with a 100% satisfaction rating from internal customers. The annual disaster recovery testing took place at an off-site location hosted by our service provider.

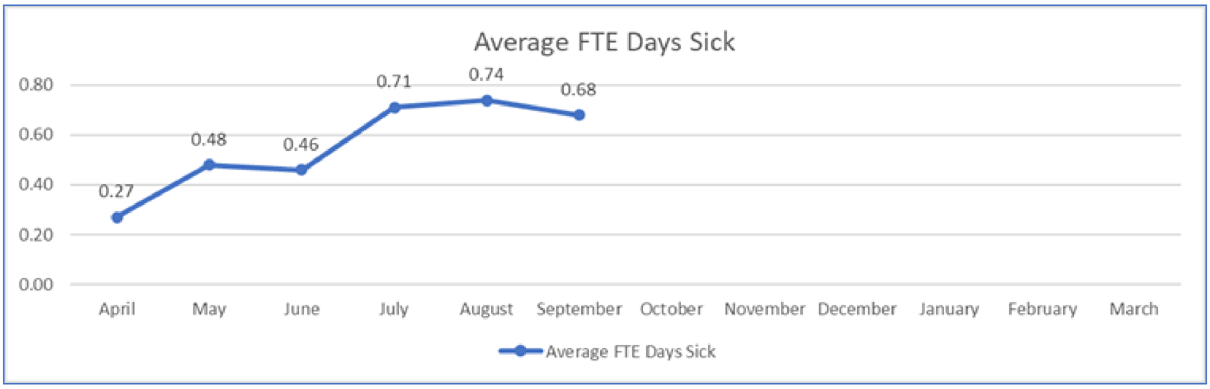
30. The project to integrate school's ordering system SIMS/FMS to ESPO's system is progressing well. This will embed ESPO's catalogue onto the school's enterprise system enabling them to send orders digitally direct into ESPO's system. The IT team have met with Agile Automations to discuss the means to enable customers to download invoices through the web site. ESPO's new staff awareness training system, uSecure, is being widely supported by staff. This is an important element of the overall cyber security programme. A follow-up audit has highlighted that significant progress continues to be made to implement the outstanding recommendations that were made within the initial Cyber Security Audit. Furthermore, ESPO's IT team continue to robustly monitor

progress against these actions by including these within their Cyber Security Risk Register.

Staffing

31. The monthly average FTE sick absence days was 0.68 in September which was a reduction on the previous two months (chart below). Sick absence levels in 2023/24 continue to track much lower than in 2022/23 and the rolling 12 months average of FTE days absent was 7.97 in September (table below).

32. The three main causes of sick absence during quarter two 2023/24 were 1. Musculo-Skeletal, 2. Stress/Depression, Mental Health and 3. Cough, Cold & Flu. Monthly absence case conferences are being held with Heads of Service who have long term cases in their areas. Details have been issued around the flu vaccination programme, approach to good hygiene in the workplace and working from home when unwell if possible.

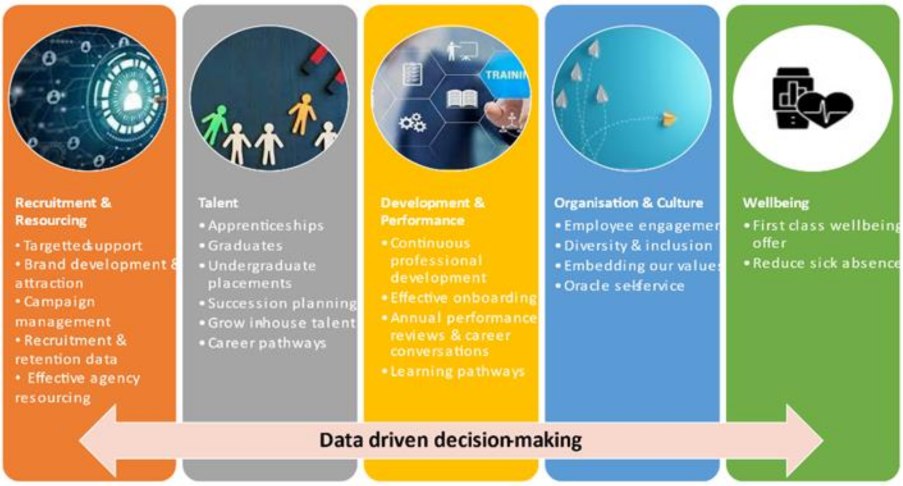


	Apr-23		May-23			Jun-23			Jul-23			Aug-23			Sep-23		
Department	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick
ESPO	321.14	7.79	2448.44	318.14	7.70	2345.11	312.87	7.50	2422.42	311.81	7.77	2426.25	309.81	7.83	2471.51	310.14	7.97

People Plan

33. Progress has been made on the 2023/24 people plan which sets out actions under 5 pillars – Recruitment & Resourcing, Talent, Development & Performance, Organisation and Culture and Wellbeing. Job adverts now contain links to promotional material and are routinely placed on Indeed and LinkedIn for greater exposure. A new apprenticeship is being scoped in the Business Development & Growth section and there have been improvements in both mandatory training and appraisal completions. Plans are being finalised to run a staff survey in November and offer health assessment slots to all staff before Christmas:

ESPO People Plan



ESPO Risk and Governance Update

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

34. 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 of Management Committee are asked to note and support the contents of this report.

Officer to Contact

Kristian Smith, Director
k.smith@espo.org
Tel: 0116 265 7887

Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract

Management Summary Sep 23

Management Summary

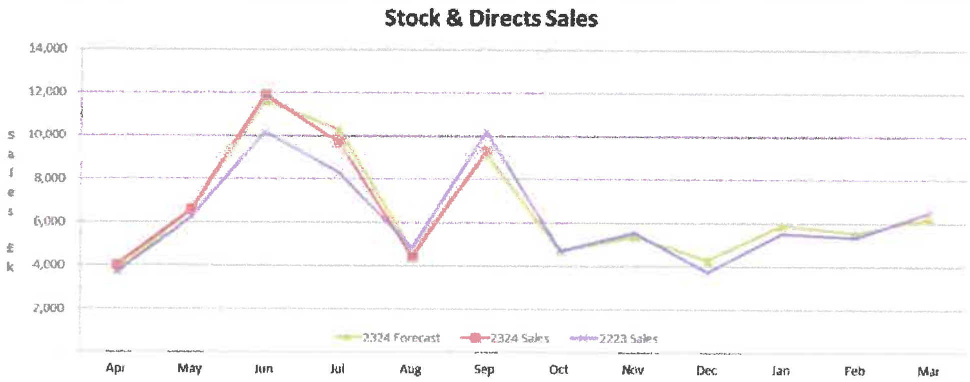
	Actual	Budget / LY	Var	YTD Actual	YTD Var
Stores Sales	£6,224,216	£6,278,421	-0.9%	£35,344,496	-0.2%
Direct Sales	£3,102,084	£2,873,155	8.0%	£10,624,682	-0.6%
Rebate plus fee income	£569,678	£389,676	46.2%	£6,517,098	16.4%
Total Sales (Exc Gas)	£9,954,002	£9,923,171	0.3%	£53,359,253	2.2%
Stores Margin %	29.4%	29.5%	(0.06%)	31.4%	1.1%
Directs Margin %	15.8%	14.7%	1.11%	15.6%	0.93%
Total Gross Margin inc Consumables Cost	£2,980,448	£2,730,305	9.2%	£20,316,936	8.3%
Total Expenditure	£2,252,477	£2,303,026	-2.2%	£13,127,426	-2.1%
Surplus	£727,971	£427,279	£300,692	£7,189,510	£1,838,649
Net Profit Margin %	7.3%	4.3%	3.0%	13.5%	3.2%

	Actual	Budget / LY	Var	YTD Actual	YTD Var
Eduzone Sales	£67,795	£124,132	-45.4%	£320,892	-33.8%

Customer Order KPI's

	TY YTD	LY YTD	Var
AOV	£267.14	£233.80	£33.34
Prop of orders over £15	97.2%	97.1%	0.13pp

Graph - Sales vs. Forecast



This page is intentionally left blank

ESPO

Risk Ref	Category	Risk Description	Consequences / Impact	Risk Owner	Inherant Risk Score: Impact	Likelihood	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	Residual Risk: Impact	Likelihood	Score	Risk Action Tolerate / Treat / Transfer / Terminate	Further Action / Additional Controls	Action Owner	Action Target Date	Comment	HIDE: Inherant Risk	HIDE: Residual Risk
2	Stores Trading and Brand	Web - Failure to meet customers' expectations or requirements leading to loss of business	1. Reduction in the sales of products and use of services. 2. Incomes fall below economic levels required to support current operational needs. 3. Threat to MTFS	AD Business Development	5	3	15	Treat	1. Rolling review of Customer Offer 2. Web development digital roadmap 3. Various customer satisfaction surveys and analysis of feedback. 4. Weekly reviews of operating and financial KPIs 5. Benchmarking against other public & private sector competitors. 6. Compliant procurement	1. Key website operating KPIs (visits, transactions, sales, procurement downloads, CAA, COA) 2. Customer feedback and satsfaction levels 3. If analysis of competitor websites identifies key new functionality or services being offered.	4	3	12	Treat	Deliver website development project. Key upcoming milestones include: - To ensure that we are always on a supported version of Adobe Commerce - Commence delivery of PushOn rolling improvements, including launch of Klevu live search and re-merchandising site (Oct 23) - Deliver customer experience (and My Account) functionality (Dec 23) including ability to pay invoices online - SEO optimisation - ongoing - E-procurement integration into website (Jan 24) - New Digital Support Officer role will help mitigate single point of failure - being recruited to currently.	Head of Marketing	Ongoing	24.8.23 - Web roadmap progress is being monitored on a monthly basis and all actions are underway. Developments planned over the next 12 months. - Issue with customer specific pricing identified across April and May which proved complicated to resolve and hindered progress though. Long term improved solution to price list maintenance in development. - Skuudle contract now in place and product selection/mapping to competitors is now in progress. Expect benchmarking analysis to start in Q4 23. - On e-procurement, multiple customers waiting for this to be enabled prior to joining ESPO. project launched to monitor SIMS/PS Financials system integration, and work with PTrade Centric is in progress.	High	Med
25	Stores Trading and Brand	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 Business Development	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. 11. Consider bidding for the CCS tail spend tender issued in June 2021	AD Procurement & Commercial	Ongoing	24.8.23 Reviewed - Competitor update paper going to Management Committee in September. The team continue to regularly benchmark key products.	High	Med
78	Supply chain	Supply chain risk – including corona virus, Brexit and Conflict in Europe	1. 'Stock supply shortages for products or components that are made in Far East. 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. 5. Buying price risk due to increased freight xosts may mean a reduced margin. 6. Driver shortage in the market could affect deliveries to ESPO and our ability to deliver to our customers on time. • Staff complacency and not adhering to controls in place. • All risks as identified previously coming to fruition due to further restrictions introduced. • Supply chain disruption in the event of further lockdowns both in UK and Worldwide. • On-going school closures / partial closures.	Director	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. Contracted 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 Optimisation team. 8. Work closely with staff agency partners to source staff across the logistics, procurement and financial sectors. 9. Continue to manage supply chain risk through Supply Chain Panel, PAG and CMG. 10. CMG and Contracts Panel will be made aware of price increases and impacts assessed by Finance 11. Aim to resist price increase 'within year' 12. Mitigate increases through competition, re-sourcing, extensions	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 • Continued enforcement of existing controls by managers • Continued staff briefings and reminders. • On-going Covid-19 secure monitoring by ESPO Health and Safety Advisor and LCC.	4	4	16	Tolerate	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 Mgmt. Committee. 06.03.2020 Teleconference with LCC. • All risk assessments and guidance fully aligned with LCC. • Internal meetings took place regularly during height of pandemic. Frequency reduced due to new 'BAU'. Would resume if required. • Comms on-going • Forthcoming work on building modifications and a new people strategy to support new ways of working.	Director	Ongoing	15.6.22 Post risk meeting - residual risk increased to high reflecting discussion about changes (and risk of further changes) in global trading conditions.	High	High
79	IT	IT Cyber Security. Range of cyber security threats (Note - separate IT specific risk register maintained and overseen by internal ITDG committee)	Failure to adequately protect ESPO networks, systems and data from malicious attack could lead to a range of potential consequences, including; financial; reputational; operational; legal impacts or other losses.	AD Operations & IT	5	4	20	Treat	Range of protections/controls in place, including (but not limited to): 1) Firewalls (outer defences, controlling the border of ESPO network) 2) Automated Threat Protection system (assesses various incoming data (e.g. emails) for potential threats) 3) Antivirus software (Prevents known viruses from executing on ESPO devices) 4) Authentication systems (Controls who can access ESPO systems and data) 5) Staff education (Reduces risk of successful phishing attack) 6) Anti-Ransomware backup solution (prevents hackers from encrypting our backups) 7) External security controls Audit (Highlights areas of concern in ESPO security systems) 8) Penetration testing (probes the ESPO network for vulnerabilities) (Needs further expansion/detail)	1) Firewall logs (contain details on network traffic, including hostile attacks on the ESPO network) 2) Firewall Reports (Daily, weekly, monthly reports on network traffic) 3) External security support partner monitoring (Various support partners issue regular threat alerts) 4) various event logging - systems that monitor and alert on potential concerns (this is a weak area for ESPO and will be reviewed) (Needs further expansion)	4	4	16	Treat	IT action plan created and enhanced following the cyber audit by LCC. This includes controls in place, and enhancements, including: - Creation of cyber security roadmap, specific risk register and incident response processes - New remote working policy including multi-factor authentication, revised password policy and technical measures for device authentication. - Penetration Testing - Disaster recovery policy, testing and third party support - Staff training and to improve awareness, competance and enhance the positive culture of reporting of issues/mistakes - Contracts with specialist 3rd parties to provide regular technical and emergency support - Working towards 'CyberEssentials+' accreditation - Maintenance and development of internal security procedures (e.g. the 2022 version upgrade of our ERP system) Sept 2022 Cyber Insurance policy extended for 1 year. Oct 2022 LT approved Incident Response Policy.	AD Operations & IT	Q1 2021/ongoing	Cyber Security Policy document approved by LT Oct 2022. LCC Cyber Security audit completed Nov 2022. Cyber insurance policy extended by 12 months Sept 2022. March 2023 Use of MS Defender for device protection. Use of MS Sentinel for alert monitoring. Use of uSecure service to improve staff awareness. LCC 2022/23 IT General Controls Audit provided Substantial Assurance (June 2023) IT Project Mandate policy agreed with LT to manage change control. Migration taking place from Pulse to Miscrosoft Always On VPN Aug 2023.	High	High
80	Procurement - Compliance	The Procurement Bill contains areas of potential risk for ESPO. Lack of clarity around proposals at this stage adds to the concern. Main areas of concern are: Proposal for more flexible procurement procedures may devalue the protection afforded by frameworks. Customers may decide to procure themselves. More flexible procedures lacking detail - risk to ESPO if it attempts to pioneer use of these. Increased transparency rules bring greater administrative and compliance burdens and unclear expectations from Cabinet Office exposes contracting authorities to litigation risk. There is also a real risk that suplliers could become more embolden to mount legal challenges to procurement decisions umder the new regieme and until it is fully traied and tested. The new Regulations will remain under review and therefore subject to change for at least two year after being implemented.	Customers may choose to undertake their own procurements and not use frameworks - fall in rebate income. Risk of court challenge if new procedures used incorrectly. Current procurement structure may need reassessment to ensure compliance with transparency rules. Risk of being sued for inappropriate transparency or for not being transparent enough.	AD Procurement & Commercial	5	3	15		Monitoring contracts finder/ find a tender and closer monitoring of customer procurement pipelines Better engagement through CRM'S Continued engagement with legal advisors to gauge customer tendencies Canvass opinion from member authorities to understand what it means to them/what their intentions are. Manage customer messages to intensify the 'safe framework' message. ESPO stick with Open Procedure until new flexible procedures are clarified and tested. Ensure procurement team is adequately resourced to ensure transparency compliance. Create a Transparency/Governance unit within procurement. Update processes & procedures to reflect new requirements.	Fall down in number of customers using our frameworks. Insufficient resource to manage increased administration required.	5	3	15	Treat	1. Develop ESPO's procurement strategy to take account of the newly released National Procurement Policy Statement 2.Work closely with LCC and other PBOs to develop joint approach. 3.Through chairmanship of the PBO forum ensure that representatives from the Cabinet Office attend to provide regular updates on policy in relation to the Procurement Bill developmental 4. Ensure that ESPO has representation on the planned Cabinet Office training advisory body for new procurement rules - push for central funding. 5. Put in place an ESPO procurement steering group to support the transition to new ways of working 6. Ensure adequate legal reource is in place from LCC to support the transiton to new procurement rules. 7.Ensure new processes and governace procedres reamin under review and in-step with changes to the new Regulations. 8. Continue to invest in staff training and developemt.	AD Procurement & Commercial		28/02/2023 No change in respect of Bill progress through Parliament. Procurement Steering Group continues to work through White Paper as a working group to redesign processes and possibly re-structure to ensure readiness. 1.9.23 - we have responded to the Cabinet Office consultation exercise on the draft regulations and guidance. We continue to review the draft bill.NFA	High	High
88	IT	Framework CRM database - Supporting £9M+ rebate and £2.5bn+ customer spend Risk of high dependance on bespoke ESPO developed system and knowledge with one individual within IT.	ESPO risks are: 1. Reduced visibility of framework sales data/MI, by customer/sector etc. 2. Reduced ability to forecast rebate income ranges. 3. Potential to adversely impact rebate income. 4. Increased manual workload for procurement teams. 5. Member dividend is based on top frameworks which will not be ascertainable if there is no access to the database. 6. Current database doesn't hold framework details on MSTAR, Washroom Services and CCS collaborations due to difficulties with entering data.	AD Procurement & Commercial	5	4	20	Treat	1. Tested process for system use. 2. Some data is held within procurement teams at supplier level only. 3. Finance and Commercial teams hold high level framework rebate information. 4. Spirit project to expand data management is currently underway.	1. Actual income to be monitored against forecast and variances reviewed. 2. Delays in provision of MI and/or agreement on rebate levels with suppliers. 3. Reviews between Commercial team and Procurement teams. 4. Reviews between Commercial and Finance team. 5. Status of the Spirit project.	4	3	12	Treat	1. Implement new Spirit system. 2. Build a centrally held pipeline for customer spend. 3. Consider development of a supplier portal for uploading of MI from 2,500+ suppliers. 4. Consider automation of raising supplier invoices via Spirit CRM. 5. Consider business wide rollout of a CRM system. 6. Consider appointing a supplier to provide a rebate portal.	Head of Commercial		31/08/23 - no updates	High	Med
91	Governance and financial	Risk of warehouse extension overspend	1. Reduced cash reserves 2. Less appealing investment proposition	AD Finance	5	4	20	Treat	1. Procurement process with prices agreed and fixed where possible at the outset of contracting. 2. Regular reviews of the Cost Plan with the third party project manager (Pick Everard) and main contractor (Galliford Try)	1. Cost overruns agreed/expected evaluation at each stage of the tender process, and as the project progresses.	4	3	12	Treat	1. Continual evaluation of costs and investment appraisal through the Project Board 2. Clear specification for contractors and flexibility on ESPOs part to manage costs 3. Fast delivery plan once planning permission has been obtained	AD Finance	01/12/2022	28.8.23 - Main contractor has been tendering out work packages and whilst we have seen an increase in the expected cost, it remains within the window approved by the Management Committee.	High	Med

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank