Explanatory Foreword

Introduction

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

About ESPO

ESPO is a Joint Committee set up under Section 102 of the 1972 Local Government Act. The member authorities at 31 March 2019 were Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

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

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

Performance in 2018-2019

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

Tight control has been maintained over spending both on staff and operating expenses, and this has resulted in a Net Surplus in the management accounts of £5.1M. This enables the announcement of a £3.4M dividend distribution to members for 2018-2019.

Future Prospects

In order to mitigate the possible adverse effects of Local Authority spending constraints on future sales volumes ESPO continues to market its goods and services to a broad public sector audience within and beyond its member areas. This strategy supported the successful performance in 2018-2019 and will be continued in line with ESPO's four year strategy and the medium term financial plan.

Explanatory Foreword (continued)

ESPO's Accounts

The following accounting statements represent ESPO's accounts for the 2018-2019 financial year and have been prepared on a going concern basis. The statements and notes are presented in a way that is intended to meet the common needs of most users with the objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement:

This statement shows the accounting cost during the year of providing services in accordance with generally accepted accounting practices. It is fundamental to the understanding of the consortium's activities in that it summarises trading income and expenditure for the year ending 31 March 2019 of all functions for which ESPO is responsible.

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

Balance Sheet:

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

Cash Flow Statement:

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

Local Government Pension Scheme:

The staff of ESPO are employed by Leicestershire County Council, on a rechargeable basis, although ESPO determines the staffing levels. Employees are eligible for membership of the Local government Pension Scheme (LGPS). The net pension liability for ESPO was £24.2M as at 31 March 2019 compared with £18.7M as at 31 March 2018. The position has deteriorated mainly due to an increase in liabilities as a result of a decrease in the net discount rate over this period and an increase in the assumptions used for future inflation rates and salary increases. The discount rate is the main contributor and is used to place a value on the liabilities. The rate is referenced to the market yields on high quality corporate bonds, which have shown a long-term increase over the duration of the expected liabilities resulting in a lower value being placed on liabilities.

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

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

Authorisation of Accounts:

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

Date of Authorisation:

The accounts were authorised for issue on 28 June 2019.

K. Smith
Director of ESPO

C. Tambini
Consortium Treasurer

Date: 19/09/2019

Date: 19/09/2019

The Eastern Shires Purchasing Organisation Consortium's Responsibilities

The consortium is required to:

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

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

- Approve the Statement of Accounts.

These accounts were approved at a meeting of the consortium Management Committee on 19 September 2019.

Cllr. S. Rawlins

Chairman, ESPO Management Committee

Date: 19/09/2019

The Consortium Treasurer's Responsibilities

The Consortium Treasurer is responsible for the preparation of the consortium's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom 2018/19.

In preparing this Statement of Accounts for the year ended 31 March 2019, the Consortium Treasurer has:

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

The Consortium Treasurer has also ensured that:

- Proper accounting records have been maintained and kept up to date;
- Reasonable steps were taken for the prevention and detection of fraud and other irregularities.
- The Statement of Accounts give a true and fair view of the financial position of ESPO at the reporting date and of its expenditure and income for the year ended 31st March 2019.

C Tambini

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

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

	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs and Renewals Reserve	Earmarked Property Maintenance Reserve	Warehouse Automation	Total usable Reserves	Unusable Reserves	Total Reserves	Note
	£000	£000	£000	£000	£000	£000	£000	£000	
Balance at 1st April 2017 Carried Forward	**4,325**	**0**	**1,639**	**2,651**	**2,500**	**11,115**	**(12,413)**	**(1,298)**	
Movement in Reserves during 2016-17									
Total Comprehensive Income and Expenditure	(420)					(420)	2,068	1,648	
Adjustments between the accounting basis and funding basis under regulations	1,573		(101)			1,472	(1,472)		5
Net Increase/(Decrease) before Transfers to Earmarked Reserves	1,153		(101)			1,052	596	1,648	
Transfers (from)/ to Earmarked Reserves	(371)	2,500	(35)	406	(2,500)				6
Increase/(Decrease) in 2017-18	782	2,500	(136)	406	(2,500)	1,052	596	1,648	
Balance at 1st April 2018 Carried Forward	**5,107**	**2,500**	**1,503**	**3,057**	**0**	**12,167**	**(11,817)**	**350**	
Movement in Reserves during 2018-19									
Total Comprehensive Income and Expenditure	(422)					(422)	(3,122)	(3,544)	
Adjustments between the accounting basis and funding basis under regulations	2,162		(812)			1,350	(1,350)		5
Net Increase/(Decrease) before Transfers to Earmarked Reserves	1,740		(812)			928	(4,472)	(3,544)	
Transfers (from)/ to Earmarked Reserves	(888)	441	38	409					6
Increase/(Decrease) in 2018-19	852	441	(774)	409	0	928	(4,472)	(3,544)	
Balance at 31st March 2019 Carried Forward	**5,959**	**2,941**	**729**	**3,466**	**0**	**13,095**	**(16,289)**	**(3,194)**	

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

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

Balance Sheet
As at 31st March 2019

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

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

Cash Flow Statement
For the year ended 31st March 2019

2017/18		2018/19	Note
£000		£000	
420	Net (Surplus) / Deficit on the provision of services	422	
(4,142)	Adjustments on provision of services for non-cash movements	(3,964)	18
(286)	Adjustments for items included in the net (surplus) on the provision of services that are Investing and Financing activities	(184)	18
3,064	Net cash flows adjustments to operating activities	3,320	19
(944)	Total net cash flow from operating activities	(406)	
71	Investing Activities	831	20
564	Financing Activities	509	21
(309)	Net decrease / (increase) in cash and cash equivalents	934	
11,712	Cash and cash equivalents at the beginning of the reporting year	12,021	14
12,021	Cash and cash equivalents at the end of the reporting year	11,087	14

Notes to the Accounts

1. Accounting Policies

a. Introduction

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

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

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

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

b. General Principles

The Statement of Accounts summarises ESPO's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. ESPO prepares an annual Statement of Accounts by the Accounts and Audit Regulations 2015 as best practice, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and the Service Reporting Code of Practice 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance as detailed in the Local Government Act 2003.

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

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

1. Accounting Policies (continued)

c. Accruals of Income and Expenditure:

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

Revenue from the sales of goods is recognised when ESPO satisfies the performance obligation to its customers on delivery and it is likely that economic benefits associated with the transaction will flow to ESPO. ESPO has standard payment terms agreed with its customers.

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

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

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

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

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

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

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

d. Cash and cash equivalents

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

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

e. Exceptional Items

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

1. Accounting Policies (continued)

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

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

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

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

g. Charges to Revenue for Non-Current Assets

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

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

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

h. Employee Benefits

Benefits Payable during Employment

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

The Local Government Pension Scheme

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

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

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

1. Accounting Policies (continued)

h. Employee Benefits (continued)

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

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

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

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

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

Service Cost comprising

Current service cost

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

Past service cost

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

Net interest on the net defined benefit liability (asset)

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

Remeasurements comprising

The return on plan assets

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

Actuarial gains and losses

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

Contributions paid to the Pension Fund

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

1. Accounting Policies (continued)

h. Employee Benefits (continued)

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

Discretionary Awards

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

i. Events after the Balance Sheet date

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

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

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

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

j. Financial Instruments

Financial Liabilities

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

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

Financial Assets

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

1. Accounting Policies (continued)

j. Financial Instruments (continued)

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

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

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

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

k. Classification of Assets and Liabilities

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

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

All other assets are classified as long term.

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

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

All other liabilities are classified as long term.

l. Intangible Assets

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

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

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

1. Accounting Policies (continued)

l. Intangible Assets (continued)

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

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

m. Inventories

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

n. Leases

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

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

Finance Leases

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

Lease payments are apportioned between:

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

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

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

1. Accounting Policies (continued)

n. Leases (continued)

Operating Leases

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

o. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

The warehouse and offices premises at Grove Park are included at existing use value and are revalued regularly to ensure that the carrying amount is not materially different from their existing use value at the year end. Chartered Surveyors in the Property Services Division of Leicestershire County Council's Resources Department carry out the valuation. The current property value used in the 2018/19 accounts is based on a certificate issued by the Council's Head of Property Services Division as at 31 March 2019. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, except that gains may be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

1. Accounting Policies (continued)

o. Property, Plant and equipment (continued)

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

Impairment

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

Where impairment is identified, they are accounted for by:

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposals and non-current assets held for sale

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

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

1. Accounting Policies (continued)

p. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

q. Reserves

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

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

r. VAT and Climate Change Levy (CCL)

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

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

2. Critical Judgements in Applying Accounting Policies

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

- ESPO's premises at Grove Park, Enderby have been subject to a revaluation as at 31 March 2019 by the Property Department of Leicestershire County Council (the organisation's servicing authority). The resulting increase in the fair value of £771,000 is reflected in the accounts.
-
- ESPO has reviewed its significant revenue streams under IFRS 15 (Revenue Recognition). This has not resulted in changes to how ESPO recognises its revenue. Further information on recognition and treatment can be found in the Accounting Policies section.

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

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

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

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

The items in the organisation's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if Actual Results differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent upon assumptions of business requirements and upkeep expenditure on individual assets.	If the useful lives of assets reduces depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for the premises would increase by £2,000 for every year that useful lives had to be reduced.
Debtors	At 31 March 2019, ESPO had a balance of sales ledger debtors of £7,498k. A review of overdue debts has identified that impairment for doubtful debts of £90,604 was appropriate in relation to amounts due from commercial organisations. However, it is not certain that such an allowance will be sufficient.	If an additional 1% of customers become insolvent, the amount of the impairment for doubtful debts would require an additional £74,980 to be set aside as an allowance.
Stocks	Stocks of catalogue products are held in anticipation of sales to customers. The catalogue is re-issued annually and products may be added or deleted. Stocks held at 31 March 2019 in excess of one year sales may not be included in subsequent catalogues. The write down in value of stocks held in excess on one year amounted to £182,659.	If 10% of the products for which excess stocks have been identified are included in the catalogue for 2018/19, the resulting reduction in stock write down would be £18,266.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An independent firm of consulting actuaries is engaged to provide the organisation with expert advice about the assumptions to be applied, although ultimate responsibility for forming these assumptions remains with the organisation. The carrying value of the Pension Liability as at 31 March 2019 is £24.8M	The effects on the net liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £6.5M. A one year increase in member life expectancy compared with the assumption used would increase the liabilities by between £1.56M and £2.59M. However, the assumptions interact in complex ways. During 2018/19, the organisation's actuaries advised that the net pension liability had increased by £3.88M attributable to updating of the assumptions.
Accruals	There is an uncertainty to the amount of reserves created as some of the amounts are based on estimates.	The position is regularly reviewed.

4. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue on 28 June 2019. Events taking place after this date are not reflected in the accounts or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the accounts and notes have been adjusted in all material respects to reflect the impact of this information. There are no post balance sheet events.

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

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

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

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

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

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

6. Transfers (from) / to Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

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

2017/18 Comparative Figures:

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

7. Other Operating Expenditure

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

8. Financing and Investment Income and Expenditure

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

9. Property, Plant and Equipment

Movements in Balances

<u>Movements in 2018/19</u>

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

9. Property, Plant and Equipment (continued)

Comparative Movements in 2017/18:

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

Depreciation:

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

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

Capital Commitments:

At 31 March 2019, there were no contractual commitments in 2019/20 for the acquisition of tangible or intangible assets.

9. Property, Plant and Equipment (continued)

Revaluations:

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

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
	£000	£000	£000
Historical cost	0	3,883	3,883
Valued at existing use value at 31 March 2019	13,300	0	13,300
Total Cost or Valuation	**13,300**	**3,883**	**17,183**

10. Intangible Assets

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

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

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £13,000 charged to revenue in 2018/19 was charged as a service overhead cost under the heading "Equipment" in the Comprehensive Income and Expenditure Statement.

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

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

11. Financial Instruments

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

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

11. Financial Instruments (continued)

Income, Expense, Gains and Losses:

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

	2017/18		2018/19	
	Financial Liabilities	Financial Assets	Financial Liabilities	Financial Assets
	Measured at amortised cost	Loans and Receivables	Measured at amortised cost	Loans and Receivables
	£000	£000	£000	£000
Interest expense payable on long term loan	(292)	0	(269)	0
Bank interest payable on leased assets loans	(3)	0	0	0
Bank and short term investment interest receivable	0	31	0	75
Net (loss)/gain for the year	(295)	31	(269)	75

Fair Values of assets and Liabilities

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

- Estimated interest rate at 31 March 2019 of 3.12% for loans from Leicestershire County Council based on equivalent rates for loans from the PWLB and a rate of 7.6% for equipment loans based on equivalent commercial rates.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

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

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

Loans and Receivables:

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

12. Inventories

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

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

13. Short Term Debtors

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

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

14. Cash and Cash Equivalents

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

15. Short-Term Creditors and Other Current Liabilities

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

16. Total usable Reserves

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

ESPO reserves have been established to meet operating deficits and to finance major one-off expenditure and replacement of assets. The Usable Reserves held by ESPO at 31 March 2019 are as follows:

(i) General Fund:

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

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

(ii) Repairs and Renewals:

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

(iii) Property Maintenance:

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

(iv) Earmarked Projects:

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

17. Unusable Reserves

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

Revaluation Reserve

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

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

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

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

Capital Adjustment Account

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

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

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

17. Unusable Reserves (continued)

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

17. Unusable Reserves (continued)

Accumulated Absences Account

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

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

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

Pensions Reserve

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

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

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

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

19. Cash Flow Statement – Adjustments to Operating Activities

The cash flows for operating activities include the following items:

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

20. Cash Flow Statement – Investing Activities

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

21. Cash Flow Statement – Financing Activities

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

22. Officers Remuneration

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

Post holder Information (Post Title)	Salary (inc fees and allowances)	Compensation Payments	Benefits in Kind (e.g. Car Allowances)	Total Remuneration excluding pension contributions	Employers Pension contributions	Total Remuneration including Employers pension contributions
2018/19	£	£	£	£	£	£
Director	124,341	0	0	124,341	17,606	141,947
Assistant Director (Finance & Governance)	80,457	0	2,074	82,531	19,551	102,082
Assistant Director (Operations)	86,457	0	5,699	92,156	21,009	113,165
Assistant Director (Commercial)	64,610	0	0	64,610	15,700	80,310
	355,865	0	7,773	363,638	73,866	437,504

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

22. Officers Remuneration continued

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

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

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

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

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

22. Officers Remuneration (continued)

EXIT PACKAGES

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

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit packages by Cost Band		Total Cost of Packages in Each Cost Band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £000	2018/19 £000
£0 - £20,000	2	0	2	2	4	2	40	9
Total	**2**	**0**	**2**	**2**	**4**	**2**	**40**	**9**

23. External Audit Costs

Eastern Shires Purchasing Organisation incurred the following audit fees:

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

24. Related Parties

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

Members

Members of the Management Committee have a direct control over ESPO financial and operating policies. No payments are made by ESPO to any members of the Management Committee. During 2018/19 no members had an interest in any work or services commissioned by ESPO. Contracts were entered into in full compliance with the organisation's standing orders.

Officers

During 2018/19 no officers declared a pecuniary interest in any contractual or financial transactions.

24. Related Parties (continued)

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

Debtors:

ESPO provides goods and services to all member authorities and as a consequence amounts due from member authorities including Local Education Authorities (LEA) schools for such transactions amounted to £2,219k as at 31 March 2019 (£2,258k as at 31 March 2018) and are included in 'Sundry Debtors' as detailed in note 13 to the Statement of Accounts. The amounts owing from each member authority are as follows:

Analysis of Sundry Debtor Balances	31 March 2018	31 March 2019
	£000	£000
Member Authorities:		
Cambridgeshire County Council	307	241
Leicestershire County Council	276	254
Lincolnshire County Council	580	586
Norfolk County Council	678	696
Peterborough City Council	113	136
Warwickshire County Council	304	306
Total	2,258	2,219

Sales:

The value of sales to member authorities, including LEA schools, for services provided by ESPO are included within the value of Gross Income in the Comprehensive Income and Expenditure Statement and amounted to £31,747k for 2018/19 (£30,190k for 2017/18). The following is a breakdown by individual member authority:

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

Creditors:

Amount due to member authorities for services they provided to ESPO amounted to £311k as at 31 March 2019 (£273k at 31 March 2018) and are included within the value of 'Supplier Account Balances' as detailed in the Short-Term Creditors note to this Statement of Accounts.

Analysis of Supplier Account Balances.	31 March 2018	31 March 2019
	£000	£000
Member Authorities:		
Leicestershire County Council	273	305
Cambridgeshire County Council	0	6
	273	311

24. Related Parties (continued)

Purchases:

The value of purchases from member authorities for services they provided to ESPO are included within the value of Gross Expenditure in the Comprehensive Income and Expenditure Statement and amounted to £1,571k for 2018/19 (£2,077k for 2017/18). The following is a breakdown by individual member authority:

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

25. Capital Expenditure and Capital Financing

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

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

Financing of capital expenditure on non current and intangible assets:

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

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

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26. Leases

Finance Leases

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

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

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

Operating Leases

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

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

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

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

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

27. Buildings Revaluation

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

28. Pensions

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

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

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

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

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

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

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

In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2018/19 these amounted to £12k (2017/18 - £47k), representing 0.2% of pensionable pay.

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

28. Pensions (continued)

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

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

The cumulative amount of actuarial gains and losses recognised in the Other Comprehensive Income and Expenditure in the actuarial gains or losses on pension assets and liabilities line at 31 March 2019 was a loss of £24.8M (31 March 2018 - £18.7M).

28. Pensions (continued)

Pension Assets and Liabilities in Relation to Post-employment Benefits

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

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

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

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

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

28. Pensions (continued)

The Local Government Pension Scheme assets comprised:

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

The scheme history of the pension fund is as follows:

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

The liability shows the underlying commitment that the organisation has in the long run to pay post- employment - retirement benefits. This total liability of £24.8M has a substantial impact on the net worth of the organisation as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit will result in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the actuary.

28. Pensions (continued)

Basis for estimating assets and liabilities

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

The principle assumptions used by the actuary have been:

31 March 2018		31 March 2019
	Mortality assumptions (in years):	
	Longevity at 65 for current pensioners:	
22.1	▪ Men	22.1
24.3	▪ Women	24.3
	Longevity at 65 for future pensioners:	
23.8	▪ Men	23.8
26.2	▪ Women	26.2
2.4%	Rates of inflation	2.5%
3.4%	Rates of increases in salaries	3.5%
2.4%	Rates of increase in pensions	2.5%
2.7%	Rates for discounting scheme liabilities	2.4%
	Proportion of employees opting to commute part of their annual pension to a retirement lump sum:	
50%	▪ Pre April 2008 Service	50%
75%	▪ Post April 2008 Service	75%

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

Sensitivities regarding the principle assumptions used to measure the scheme liabilities as at 31 March 2019.

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

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

28. Pensions (continued)

Pension Fund Risk Management Strategy

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

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

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

Impact on the organisation's Cash Flows

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

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

The organisation anticipated to pay £1.8M expected contributions to the scheme in 2019/20.

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

29. Contingent Liabilities

There are no contingent liabilities.

30. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

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

Credit Risk

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

The maximum exposure to credit risk in relation to ESPO's investments in banks and building societies is 100% of its investments, but this cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principle sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of ESPO's deposits but there was no evidence at 31 March 2019 that this was likely to crystallise.

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

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

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

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

A total of £1,874k of the balance of £7,498k was overdue at 31 March 2019 and can be analysed as follows:

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

	31 March 2018	31 March 2019
	£000	£000
Less than one month overdue	1,066	977
Between one and three months	411	531
More than three months overdue	302	366
	1,779	1,874

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

Impairment of financial assets:

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

Liquidity Risk

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

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

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

Maturity analysis of financial liabilities:

	Total Long-Term Outstanding at 31 March 2018	Total Long -Term Outstanding at 31 March 2019
Lender:	£000	£000
• Leicestershire County Council	6,000	5,500
Analysis of Maturity of this loan:		
• Between one and two years	500	500
• Between two and five years	1,500	1,500
• Between five and ten years	2,500	2,500
• In ten years or more	1,500	1,000

Market Risks:

Interest Rate Risk:
ESPO is exposed to interest rate risk in terms of its exposure to rate movements on its investments and short-term borrowings. The impact on the Income and Expenditure Account of rate changes on interest receivable and interest payable on such transactions is nominal in relation to ESPO turnover. For example, the effect of a 1% increase in rates would be an increase in income on investments of £109k. The effect of a 1% decrease would have the opposite effect. 1% has been used for this analysis as this reflects the maximum expected movements in market rates over the next 12 months.

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

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

31. Accounting Standards Issued but not yet Adopted

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

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

32. Expenditure and Funding Analysis

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

GLOSSARY OF TERMS

ACCOUNTING POLICIES

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

ACCRUALS

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

AMORTISED COST

The amortised cost of a financial asset or financial liability is

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

BALANCE SHEET

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

Net Assets and

Total Reserves.

CASH AND CASH EQUIVALENTS

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS

Income received from the sale of capital assets.

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

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

CASH FLOW STATEMENT

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

CIPFA

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

CONTINGENT LIABILITIES

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

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

CREDITORS

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

CURRENT ASSETS / LIABILITIES

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

DEBTORS

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

DEPRECIATION

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

FAIR VALUE

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

GENERAL FUND

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

IMPAIRMENT

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

INTANGIBLE FIXED ASSETS

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

LEASING

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

There are two forms of lease:

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

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

LONG TERM BORROWING

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

MOVEMENT IN RESERVES STATEMENT

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

NET BOOK VALUE

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

NET WORTH (NET ASSETS/LIABILITIES)

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

NON CURRENT ASSETS

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

PROVISIONS

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

PUBLIC WORKS LOAN BOARD (PWLB)

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

REMUNERATION

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

REVENUE

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

UNUSABLE RESERVES

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

USABLE RESERVES

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