



Draft Annual Governance Statement 2019/20

1. INTRODUCTION

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

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

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

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

In discharging this overall responsibility, ESPO is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. The AGS encompasses the governance system that applied in both ESPO and any significant group entities (e.g. ESPO Trading Limited (ETL), Eduzone) during the financial year being reported.

ESPO has approved and adopted a code of corporate governance as best practice, which is consistent with the principles of "Delivering Good Governance in Local Government Framework" (CIPFA/Solace, 2016). This statement explains how ESPO has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, regulation 6 (1a and 1b) which requires all relevant bodies to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement.

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

2. WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The Organisation's governance framework comprises the systems and processes, cultures and values by which the Organisation is directed and controlled. It enables the Organisation to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money. The CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (the Framework)', sets the standard for local authority governance in the UK.

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

The overall aim is to ensure that:

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

3. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how the Organisation's management arrangements are set up to meet the principles of good governance and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any developments required. The main aim of the AGS is to provide the reader with confidence that the Organisation has an effective system of internal control that manages risks to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The revised CIPFA/SOLACE Framework requires Organisations to review arrangements against their Local Code of Corporate Governance to ensure it is consistent with the seven core principles of the Framework.

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

4. REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

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

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

The organisation must (each financial year): -

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

ESPO has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers and Leadership Team within ESPO who have responsibility for the development and maintenance of the governance environment.

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

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

5. OTHER FORMS OF ASSURANCE

Local Code of Corporate Governance

The Director has a duty to monitor and review the operation of the Code of Corporate Governance and as part of this process the Director ensures an annual assessment of the Organisation's compliance with the Code of Corporate Governance is undertaken. The local code was last formally reviewed in 2017 and will be formally reviewed again in the financial year 2020-2021.

Internal Audit Service

During the financial year 2019-2020 Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO.

LCCIAS conducts its work in accordance with the Public Sector Internal Audit Standards (the PSIAS). The requirements of the PSIAS are contained in the Internal Audit Charter for ESPO mandating the purpose, authority and responsibility of the internal audit activity. Following

an independent assessment, in April 2018, LCCIAS was judged to be generally conforming (the highest rating) to the PSIAS. As part of his Annual Report requirements for 2019-20 the Head of Internal Audit Service (HoIAS) conducted a self-assessment of LCCIAS' conformance to the PSIAS. The self-assessment identified that current practices continue to generally conform to the PSIAS. Whilst, a few areas have been identified where action is needed these are not considered significant deviations to the PSIAS.

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

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

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

For 2019-2020 based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the HoIAS concluded: -

HoIAS opinion

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

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

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

Risk management arrangements

Governance of Risk

ESPO's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. In order for risk management to be most effective and become an enabling tool, ESPO must ensure a robust, consistent, communicated and formalised process is established. The Risk Management Policy and Strategy (RMP&S) is reviewed regularly and approved by the Management Committee. The RMP&S will be reviewed in-line with the yearly MTFs review, which is to be taken to the Finance & Audit Subcommittee in February 2021. In addition, ESPO's risk strategy will be subject to an annual review. Risk management processes have been further entrenched into the management of the organisation with each member of the management team being responsible for reviewing changes in risk on a quarterly basis within their area of responsibility.

External Audit

ESPO's 2018/19 external audit was undertaken by PwC. The 2019/20 external audit will be undertaken by Grant Thornton. The selection of Grant Thornton was done independently of ESPO's management team and an evaluation was undertaken with partner authorities and Grant Thornton were approved by Management Committee in November 2019.

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

A report to those charged with Governance:

Under International Auditing Standards, external auditors are required to report to those charged with governance on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. The 2018/19 report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control, leading to an overall unqualified opinion.

Audit opinion for the 2018/19 Statement of Accounts:

The audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts sufficient to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or error. For 2018/19, ESPO's Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation.

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

Organisational Governance and Performance Framework

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

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

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

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

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

The Role of the Head of Internal Audit

CIPFA's Statement on the Role of the Head of Internal Audit in Public Service Organisations (revised April 2019) sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them. The Head of the Internal Audit Service for ESPO is also the Head of the Internal Audit Service for LCC.

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

The Role of the Consortium Secretary

The Consortium Secretary has responsibility for:

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

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

Commercial Arrangements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7.GOVERNANCE ISSUES

A senior Management Group comprising the following officers:

Leicestershire County Council (The Servicing Authority)

- Director of Law and Governance (on behalf of the ESPO Secretary)
- Assistant Director - Strategic Finance & Property (on behalf of the Consortium Treasurer)
- Head of Democratic Services

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

- Head of Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Assistant Director (Finance)

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

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that ESPO’s overall financial management and corporate governance arrangements during 2019/2020 were sound.

Progress on issues previously identified:

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

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

Whilst the review of effectiveness concluded ESPO’s overall financial management and corporate governance arrangements during 2019/2020 are sound, the assurance gathering process identified key minor corporate areas of improvement, please see Appendix. Implementing actions to address these will ensure that identified weaknesses within ESPO’s current control environment will be strengthened, and further enhance our overall governance arrangements.

During the review period 2019/20 the only significant issue identified was the risk to the achievement of the budgeted surplus in the financial year 2020/21 as a result of the COVID-19 crisis.

8. FUTURE CHALLENGES

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

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

- Worsening national finances, as a result of COVID-19, are likely to have a negative impact on public spending which could result in a reduced demand for ESPO's products from its core customers.
- Future challenges from changing customer product buying patterns. For example, some schools moving to "electronic classrooms" where paper exercise books are replaced with electronic devices.
- The uncertainty around Brexit could impact the import and export of goods. Furthermore, the ending of "Freedom of Movement" will reduce the available supply of EU labour.
- Legislation as it develops will also be crucial in the future basis of public procurement, IR35 employment legislation or indeed the embedding of GDPR.
- Further issues for consideration will be to achieve the right mix of governance between ESPO the consortium and ESPO Trading Ltd, the former being a local government committee and the latter a private trading company with a board and shareholders.
- ESPO will want to consider its workforce and the ability to ensure recruitment and retention is well managed and supports the need of a growing organisation without compromising its standards.
- Covid -19 and impact on business. ESPO's Leadership Team, using guidelines and best practice from the Leicestershire County Council (LCC) recovery team, have produced a health & safety document specifically on the Covid-19 risk. The ESPO building has been signed-off as being Covid secure.
- Cyber Risks. This is covered under the IT section of the Corporate Risk Register.

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9. CERTIFICATION

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

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

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

K. Smith
Director of ESPO

Cllr. M Howell
Chairman, ESPO Management Committee

AREAS FOR FURTHER DEVELOPMENT IN 2020-21

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

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

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