

Annual Governance Statement 2024/25

1. INTRODUCTION

The Consortium Treasurer is responsible for the preparation of the Consortium's Statement of Accounts in accordance with proper accounting practices. ESPO, on its own, is not a Local Authority and therefore has no requirement to account under the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice. This gives ESPO a degree of flexibility and ESPO has previously decided to prepare financial statements under the Financial Reporting Standard applicable in the UK (FRS102) using the UK GAAP Framework

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

ESPO is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Note that ESPO isn't in receipt of public money for the purpose of providing statutory services in the same way as a Local Authority, rather, ESPO generates its own funds from trading activity. The Consortium members (and through them ESPO) also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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

2. WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. ESPO's governance framework comprises the systems and processes, cultures and

values by which ESPO is directed and controlled. It enables ESPO to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (the Framework)', sets the standard for local authority governance in the UK.

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

The overall aim is to ensure that:

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

3. WHAT THE AGS TELLS YOU

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

The Framework requires ESPO to review arrangements against its Local Code of Corporate Governance to ensure it is consistent with the seven core principles of the Framework.

The principles contained in the Framework have been applied to the preparation of the AGS for the financial year. The AGS has been constructed by undertaking:

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

CIPFA introduced an addendum in 2025 covering the annual review of governance and the annual governance statement. This applies to annual governance statements for 2025/26 onwards and ESPO will make the requisite changes in the 2025/26 year.

4. REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

Under ESPOs constitution it is required to have a sound system of internal control which: -

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

ESPO must (each financial year): -

- (a) conduct a review of the effectiveness of the system of internal control, and,
- (b) ESPO has also elected to prepare an annual governance statement.

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

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

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

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

5. OTHER FORMS OF ASSURANCE

Local Code of Corporate Governance

The Director has a duty to monitor and review the operation of the Code of Corporate Governance and as part of this process the Director ensures an annual assessment of the Organisation's compliance with the Code of Corporate Governance is undertaken. The local code was last reviewed in 2023.

Internal Audit Service

During the financial year Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO and conducted its work in accordance with the Public Sector Internal Audit Standards (the PSIAS)¹. The requirements of the PSIAS are contained in the Internal Audit Charter for ESPO (the Charter) mandating the purpose, authority and responsibility of the internal audit activity. The Charter was last reported to the Finance and Audit Subcommittee (the Subcommittee) at its meeting 14 February 2024.

The PSIAS required an external quality assessment (EQA) of the Internal Audit function every five years. At its meeting on 30 October 2024 as part of the Internal Audit Service - Annual Report 2023-24, the Subcommittee was informed that LCCIAS had received its 5 -yearly independent external quality assessment. The assessor had produced their final report in early May. It stated that: -

The Leicestershire County Council internal audit service is delivering to a standard that generally conforms () with the Public Sector Internal Audit Standards*

(*) 'Generally Conforms' is the top rating and meant that the internal audit service had a charter, policies and processes that were judged to be in conformance to the Standards. The assessor considered LCCIAS compared very favourably in benchmarking against other Local Authorities. Six areas of good practice were reported and (as was expected) four areas for further improvement. There were no significant deviations from the PSIAS. An action plan is being developed.

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 high standard of risk management at ESPO, the plan is primarily based on the contents of the Corporate Risk Register, the medium-term Strategy and the AGS, to ensure that current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial and ICT systems, and a contingency is retained for unforeseen risks, special projects and investigations.

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

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

HoIAS opinion

For 2024-25 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: -

No significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective.

¹ From 1 April 2025, the PSIAS were replaced by the Global Internal Audit Standards in the UK Public Sector. New governance documents including a revised Internal Audit Charter will be implemented.

Risk management arrangements

Governance of Risk

ESPO's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. In order for risk management to be most effective and become an enabling tool, ESPO must ensure a robust, consistent, communicated and formalised process is established. The Risk Management Policy and Strategy (RMP&S) is reviewed regularly and approved by the Management Committee. The RMP&S was last reviewed by the Finance & Audit Subcommittee in February 2023 and will be presented for review in 2026 due to the changing risk landscape and changes in sub-committee membership. 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.

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External Audit

The previous auditors TC Group undertook the external audit for 2023/24 and no significant concerns over governance or internal control were identified. Following a tender exercise in early 2025, ESPO's external auditor was changed to Williamson & Croft Audit. Williamson & Croft will present their findings on the 2024/25 audit to those charged with governance through:

A report to those charged with Governance:

Under International Auditing Standards, external auditors are required to report to those charged with governance on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. The 2024/25 report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control.

Audit opinion for the Statement of Accounts / Financial Statements:

The audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts sufficient to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or error. For 2024/25, ESPO's Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation. The auditors also issued an 'unqualified' opinion for 2024/25.

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

Organisational Governance and Performance Framework

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

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

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

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

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

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

The Role of the Head of Internal Audit

CIPFA's Statement on the Role of the Head of Internal Audit in Public Service Organisations (revised April 2019)¹ 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 during 2024-25 conformed to the governance requirements of the CIPFA Statement. The HoIAS works with the Consortium Treasurer and Consortium Secretary, the Director of ESPO and other members of the Leadership Team to give advice and promote good governance throughout the organisation. The HoIAS (or the Audit Manager) attends the 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.

¹ From 1 April 2025, the governance aspects within the CIPFA Statement on the Role of the Head of Internal Audit Service in Public Service Organisations (April 2019) are replaced by the CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government to support authorities in establishing their internal audit arrangements and providing oversight and support for internal audit.

The Role of the Consortium Secretary

The Consortium Secretary has responsibility for:

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

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

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

Commercial Arrangements

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

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

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

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

7.GOVERNANCE ISSUES

A senior Management Group reviewed the draft AGS and determined if there were any areas for improvement. No significant governance issues were identified during 2024/25. The group comprised of the following officers:

Leicestershire County Council (The Servicing Authority)

- Director of Law and Governance (on behalf of the ESPO Secretary)
- Assistant Director – Finance, Strategic Property & Commissioning (as the Consortium Treasurer)
- Head of Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Commercial Financial Controller

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that ESPO's overall financial management and corporate governance arrangements during 2024/25 were sound.

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2024/25 are sound, the assurance gathering process identified key minor corporate areas of improvement, please see Appendix. Implementing actions to address these will ensure that identified weaknesses within ESPO's current control environment will be strengthened, and further enhance our overall governance arrangements.

8. FUTURE CHALLENGES

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

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

- Worsening national finances, inflation, and increases in the cost of living, are having a negative impact on public and school spending resulting in a reduced demand for ESPO's products from its core customers.
- Penetration into the Educational supplies market by large distributors such as Amazon and Lyreco with UK wide warehousing and distribution centres.
- Future challenges affecting ESPOs global supply chain network, with issues such as the war in Ukraine, instability across the Middle East and disruption to shipping having a direct and indirect impact on suppliers' ability to produce and transport goods around the world.
- The introduction of tariffs and counter tariffs can lead to increased costs for consumers and businesses. Tariffs, which are taxes on imported goods, can result in higher prices for items like stationery, and other essential supplies, impacting both individuals and schools.
- Future challenges around cost inflation, with issues like government policy, global supply chain problems, UK inflation, and UK cost of living increases directly affecting ESPOs cost base.
- Future challenges around ESPOs ability to recruit and retain staff in an increasingly competitive post-Covid employment market.
- Future challenges from changing customer product buying patterns. For example, some schools moving to "electronic classrooms" where paper exercise books are replaced with electronic devices.
- Further changes to public sector procurement legislation will impact on the public sector approach to procurement, and the compliance support provided by ESPO.
- ESPO will continue to consider its workforce and the ability to ensure recruitment and retention is well managed and supports the need of a growing organisation without compromising its standards. This includes the ongoing review of hybrid working which is being done using guidelines and best practice from Leicestershire County Council.
- Cyber Risks. This is covered under the IT section of the Corporate Risk Register with ESPO continually monitoring and improving its defences.

- Uncertainty about the potential governance and financial impacts of LGR

ESPO is satisfied the existing governance arrangements are sufficiently equipped to allow suitable responses to these challenges.

9. CERTIFICATION

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

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

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

K. Smith
Director of ESPO

Cllr. M Jamil
Chair, ESPO Management Committee

APPENDIX A – RESULTS OF 24/25 SELF ASSESSMENT QUESTIONNAIRES

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 self-assessment survey was generally positive about ESPOs overall financial management and corporate governance arrangements.

The SAQ asked LT to consider governance across 7 key themes, with a total of 86 questions. Scores are based on 1,2,3 or blank where no score given. 1 = good, 2 = Some weaknesses/areas for improvement, 3 = Key weaknesses/many areas for improvement. For all 7 principles, the average score was 1.1 = good. No individual question scored a '3' (=key weaknesses) and no significant governance concerns were raised. Details below:

Sub-principles and behaviours and actions that demonstrate good governance in practice	Average score	Significant governance concern raised?
Principle A. Behaving with integrity, demonstrating strong commitment to ethical values with all our stakeholders, and respecting the rule of law	1.1	None
Principle B. Ensuring openness and comprehensive stakeholder engagement	1.2	None
Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefits	1.2	None
Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes	1.1	None
Principle E. Developing ESPO's capacity including the capability of its Leadership Team and all staff members.	1.1	None
Principle F. Managing risks and performance through robust internal control and strong public financial management	1.1	None
Principle G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability to all our stakeholders.	1.1	None

APPENDIX B - AREAS FOR FURTHER DEVELOPMENT CARRIED FORWARD

The outstanding actions associated with the previous self-assessments is summarised in the table below:

ESPO AGS Action Plan – Remaining Actions

Annual Review of the Effectiveness of the Council's Governance Framework against the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)						
Core Principles of the Framework	Old/New	Owner	Action to Develop Areas Further	Update – September 25	Deadline	Completed?
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Old	MC	Review the operation of the code of conduct/ethical standards for suppliers.	<p>LCC and ESPO undertook a review of the Supplier Code of Conduct in 2024. Our contribution was the introduction of a requirement for suppliers to adopt responsible and ethical practices in relation to their use of Artificial Intelligence. Other additions made to the Code of Conduct as a result of the review were: a requirement that any goods supplied to the Council, its customers or service users are safe and an expectation that suppliers deal with information shared by the Council (particularly personal information) responsibly.</p> <p>New processes are regularly embedded to ensure that ESPO remains compliant with changes in the legislation. ESPO will also review its approach in the context of changing Procurement Regulations.</p> <p>The Supplier Code of Conduct is present throughout ESPO's suite of tendering documentation and is also available via our website. It works in tandem with ESPOs Whistleblowing Policy which is identical to that of LCC.</p> <p>ESPO is developing and will maintain an ongoing programme of consultation and audit (assisted by LCC Audit Services) to ensure that our major</p>	Spring 26	In Progress

			<p>suppliers are working in accordance with our Supplier Code of Conduct.</p> <p>Suppliers of products to ESPO for resale to customers and suppliers of products and services to ESPO for its own operational requirements will be subject to a high level of scrutiny.</p> <p>Suppliers will be visited and audited to probe how their working practices: ensure compliance with UK laws and regulations; maintain prescribed ethical, employment and welfare standards; support sustainability, environment and social responsibility; supply high quality, safe products; responsibly manage information/data; use artificial intelligence ethically.</p> <p>Suppliers will also be expected to demonstrate how they apply similar controls and standards through their own supply chains and also how they monitor compliance.</p>			
	Old	GT	<p>Develop register to monitor the key areas where laws/regulations compliance is required, levels of risk and areas where action is required.</p>	<p>The Corporate Risk Register records all risks associated with ESPO's compliance with laws and regulations particularly applying to its overall operation. Examples include Procurement Regulations (particularly with the new requirements coming out of the Procurement Act 2023), Health and Safety law, HR law, regulations applying to fleet operators and data management.</p> <p>The Corporate Risk Register is reviewed by Leadership Team on a quarterly basis, updated to reflect any changes in risk profile and an action plan is put in place to mitigate risks to an acceptable level.</p> <p>A sub-risk register focussed on legal and regulation risks is under development providing more detailed analysis and control information on these risks.</p>	Spring 26	In Progress

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