Appendix B

ESPO STATEMENT OF ACCOUNTS 2010-2011

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 2011 were Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Leicester and Peterborough City Councils.

ESPO's main objective is the provision of a professional, comprehensive, value for money purchase, contracting and supplies service for member authorities and other public bodies mainly within the Midlands and East of England regions 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 surpluses which do accrue are 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 2010-2011

Despite the difficult trading circumstances predicted last year these have not significantly affected ESPO results for this year. The growth in the use of products and services that was achieved over the last two years has been maintained. ESPO's extensive and varied customer base has enabled it to manage the effects of the economic recession and of tighter financial restrictions on local authorities. This has been achieved by increasing our turnover with authorities adjoining our core member region.

The use of our products and services by member authorities and by other customers, as measured by the value of their combined procurement activities, amounted to £546 million in 2010/11. A more detailed commercial assessment of these activities during this financial year is contained within the ESPO Annual Report for 2010/11 which is presented annually to the Management Committee.

The statutory accounts reflect the results of authorities' procurement activities through the value of invoiced sales which this year were reduced by 2.9% to achieve a total of £86.5 million. This reduction in turnover solely reflects lower energy prices. Turnover on core sales of Stores products remains strong and has recorded an increase in the year of 3.8%. Some of the inflationary increases from suppliers have been absorbed and as a result the Store's margin was reduced by £0.24 million despite higher volumes. Income from Central Purchasing activities has increased by 17%. Customers' usage of the procurement contracts and consultancy services increased as local authorities sought to offset the effects of budget spending restrictions.

ESPO continues to develop fresh initiatives to support member authorities. It is adopting an innovative approach to engaging with potential customers at an early stage in the contracting process and is extending its collaborative contracting arrangements under the name of "Pro5" together with four other similar local authority purchasing organisations. The benefits of this approach are reflected in the Central purchasing income. The combined spending power of this group of activities has resulted in price and service benefits to our member authorities and to other customers.

A tight control has been maintained over spending both on staff and operating expenses, but there have been inflationary increases on distribution and establishment costs. This control of expenditure combined with increased income has resulting is a Net Surplus in the Management Accounts (as shown in Note 23 to this Statement of Accounts) of £3.1 million, a record amount for ESPO.

These results have enabled ESPO to establish additional reserves of £2.3 million that have strengthened the organisation's ability to meet future demands, to fund improvements to operational efficiencies and anticipated organisation changes.

A revaluation of the Grove Park premises at the end of the year has resulting in a decreased valuation of £0.5 million which has reversed the increase reported in 2009/10 of £0.6 million.

In the last four months on the year, Deloitte undertook a strategic review of the role and purpose of ESPO with the intended outcome strengthening the organisation for the anticipated future needs of member authorities and other customers. Implementation of the recommendations from the review will be implemented in 2011/12.

Future Prospects

It is currently too early to evaluate the effect on ESPO of spending restrictions on local authorities introduced by the coalition government. In order to mitigate possible adverse effects of local authority spending restrictions on future sales volumes, promotion of catalogue products and contract services to non-member authorities continues across the midlands and other selected regions. To assist with further growth in general catalogue sales and offer competitive prices to customers, there has been a reduction in the mark up on selected products. This has been supported by a cost reduction/efficiency improvement programme.

The range of contracts tendered in collaboration with members of Pro 5 has been extended and working with central government agencies it is intended to provide improved value for money for customers during this difficult period. An example of such procurement projects is the recent award of the National Temporary Staffing Framework (MSTAR). This has a potential value of between £2-4 billion over the frameworks lifetime. Examples of other national frameworks that are work in progress include catering, cleaning and grounds maintenance for schools, IT hardware and services.

ESPO's Accounts

This is the first year that ESPO has changed from preparing the Statement of Accounts on a UK GAAP basis to an IFRS basis. The impact of changes in accounting policies is detailed in the notes to the financial statements.

The following accounting statements represent the Eastern Shires Purchasing Organisation's accounts for the 2010/11 financial year.

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 authority.

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 twelve months ending 31 March 2011 of all functions for which ESPO is responsible.

The consortium recovers operating costs by the addition of an oncost within the prices charged to customers and by retrospective rebates from suppliers. For dividend allocation purposes, this account is further analysed between "Stores" and "Central Purchasing". The former relates to general consumable products which are supplied from stocks held by ESPO at its warehouse. Central Purchasing covers all other trading activities, such as procuring more specialised products, providing procurement consultancy services and arranging framework contracts under which ESPO customers order directly 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 to which cash outflows 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.

Authorisation of Accounts:

The Statement of Accounts presents a true and fair view of the financial position of the authority at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Date of Authorisation:

The accounts were authorised for issue 17th June 2011 by D. Summersgill. This was the last date when events after the balance sheet date have been considered.

D. Summersgill Interim Director of ESPO	B Roberts Consortium Treasurer
Date:	Date:

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 Corporate Resources 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 24 June 2011.

Chairman, ESPO Management Committee

Date:

The Consortium Treasurer's Responsibilities

The Consortium Treasurer (Director of Corporate Resources of Leicestershire County Council) 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 2010/11.

In preparing this Statement of Accounts for the year ended 31st March 2011, 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 SORP.

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.

Independent Auditors Report to the Members of ESPO

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Eastern Shires Purchasing Organisation

Movement in Reserves Statement
For the years ended 31st March 2010 and 2011

	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs & Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked Pay Harmonisation	Earmarked Legal Claim	Strategic Review Implementation	**Total usable Reserves**	Unusable Reserves	**Total Authority Reserves**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31st March 2009	**1696**	**314**	**1457**	**156**	**0**	**0**	**0**	**3623**	**(224)**	**3399**
Movement in Reserves during 2009-10										
Surplus or (Deficit) on provision of services	731							731		731
Other Comprehensive Income and Expenditure								0	682	682
Total Comprehensive Income and Expenditure	731	0	0	0	0	0	0	731	682	1413
Adjustments between accounting basis & funding basis under regulations	(110)	(36)	(530)	0	0	0	0	(676)	(676)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	621	(36)	(530)	0	0	0	0	55	1358	1413
Transfers to/from Earmarked Reserves	(424)	(9)	397	36						0
Increase/Decrease in 2009-10	197	(45)	(133)	36	0	0	0	55	1358	1413
Balance at 31st March 2010 Carried Forward	**1893**	**269**	**1324**	**192**	**0**	**0**	**0**	**3678**	**1134**	**4812**
Movement in Reserves during 2010-11										
Surplus or (Deficit) on provision of services	2513							2513		2513
Other Comprehensive Income and Expenditure	0							0	(511)	(511)
Total Comprehensive Income and Expenditure	2513	0	0	0	0	0	0	2513	(511)	2002
Adjustments between accounting basis & funding basis under regulations	35	(84)	(219)	0	0	0	0	(268)	268	
Net Increase/Decrease before Transfers to Earmarked Reserves	2548	(84)	(219)	0	0	0	0	2245	(243)	2002
Transfers to/from Earmarked Reserves	(2304)	440	448	(4)	520	500	400			
increase/Decrease in 2010-11	244	356	229	(4)	520	500	400	2245	(243)	2002
Balance at 31st March 2011 Carried Forward	**2137**	**625**	**1553**	**188**	**520**	**500**	**400**	**5923**	**891**	**6814**

Eastern Shires Purchasing Organisation

Comprehensive Income and Expenditure Statement
For the year ended 31 March 2011

2009-10				2010-11		
Gross Expenditure	Gross Income	Net (Income) Expenditure		Gross Expenditure	Gross Income	Net (Income) Expenditure
£000	£000	£000		£000	£000	£000
26,373	(35,650)	(9,277)	Central Stores	27,982	(37,019)	(9,037)
45,746	(53,421)	(7,675)	Other Customer & Client Receipts	40,468	(49,449)	(8,981)
72,119	(89,071)	(16,952)	Total	68,450	(86,468)	(18,018)
9669		9,669	Employees	9,206		9,206
173		173	Other Employee Expenses	158		158
604		604	Premises	579		579
1245		1,245	Transport	1,319		1,319
1281		1,281	Equipment	1,370		1,370
320		320	Office Expenses	298		298
1580		1,580	Other Expenses	1,046		1,046
89		89	Support Service Charges	100		100
87,080	(89,071)	(1,991)	**Net Cost of Services**	82,526	(86,468)	(3,942)
790	(15)	775	Other Operating expenditure	974	(6)	968
487	(2)	485	Financing and Investment Income & expenditure	466	(5)	461
88,357	(89,088)	(731)	**(Surplus) or Deficit on Provision of Services**	83,966	(86,479)	(2,513)
		(682)	Surplus or deficit on revaluation of Property, Plant and Equipment assets			511
		(682)	**Other Comprehensive Income and Expenditure**			511
		(1,413)	**Total Comprehensive Income and Expenditure**			**(2,002)**

Eastern Shires Purchasing Organisation

Balance Sheet
For the years ended 31st March 2009 to 2011

	1 April 2009	31 March 2010	31 March 2011
	£000	£000	£000
Property, Plant & Equipment:	10,797	11,660	10,863
Intangible Assets:	28	82	123
Long Term Assets	10,825	11,742	10,986
Assets held for sale			
Vehicles, Plant, Furniture & Equipment	0	0	
Inventories:			
Central Stores Stocks	4,122	4,488	4,435
Short Term Debtors:	9,361	7,721	7,219
Cash and Cash Equivalents	6,420	1,802	4,984
Current Assets	19,903	14,011	16,638
Cash and Cash Equivalents	0	0	
Short Term Borrowing	(794)	(757)	(761)
Short Term Creditors	(13,985)	(8,457)	(7,930)
Other Current Liabilities	(1,814)	(1,402)	(2,320)
Provisions	(112)	(110)	(99)
Current Liabilities	(16,705)	(10,726)	(11,110)
Long Term Borrowing	(10,500)	(10,000)	(9,500)
Other Long Term Liabilities	(124)	(215)	(200)
Long Term Liabilities	(10,624)	(10,215)	(9,700)
Net Assets	3,399	4,812	6,814
Usable Reserves	3,623	3,678	5,923
Unusable Reserves	(224)	1134	891
Total Reserves	3,399	4,812	6,814

Eastern Shires Purchasing Organisation

Cash Flow Statement
For the year ended 31 March 2011

2009/10		2010/11
£000		£000
(731)	Net (Surplus) or deficit on the provision of services	(2513)
2344	Adjustments on provision of services for non-cash movements	(2118)
1607	Adjustments for items included that are investing and financing activities	461
3220	Net cash flow from operating activities	(4170)
755	Investing Activities	381
643	Financing Activities	607
4618	Net (increase) or decrease in cash and cash equivalents	(3182)
6420	Cash or cash equivalents at the beginning of the reporting period	1802
1802	Cash or cash equivalents at the end of the reporting period	4984

Notes to the Accounts

1. Accounting Policies

a. General Principles

The Statement of Accounts summarises ESPO's transactions for the 2010/11 financial year and its position at the year end of 31 March 2011. ESPO is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, 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 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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.

b. 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 transfers the significant risks and rewards of ownership to the purchaser and it is likely that economic benefits associated with the transaction will flow to ESPO.

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.

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.

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

d. 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.

e. 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, ie 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.

f. Charges to Revenue for Non-Current Assets

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 no accumulated revaluation gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service

For the determination of its income requirements, ESPO is not required to include depreciation, revaluation and impairment losses or amortisations. These are replaced by revenue contributions to the Earmarked Repairs and Renewals Reserve and Warehouse Maintenance Reserve for the replacement of non current and intangible fixed assets by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserve Statement for the difference between the two.

g. 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 (eg 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 eg 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 Authority Pension Scheme

In accordance with Financial Reporting Standard No 17 – Retirement Benefits (FRS 17) ESPO is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. This information is included within the Leicestershire County Council Statement of Accounts for 2010/11 as staff are employees of Leicestershire County Council and no separate apportionment is made of pension scheme assets and liabilities in respect of ESPO staff.

Discretionary Awards

ESPO has restricted powers to make discretionary awards of retirement benefits in the event of early retirement. 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.

h. <u>Events after the Balance Sheet date</u>

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.

i. <u>Financial Instruments</u>

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 is 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.

Loans and receivable 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 Derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sales Assets

ESPO has no such assets and will identify a policy when this is likely to be required.

j. 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.

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.

k. Inventories

Inventories are included in the Balance Sheet at the lower of cost or net realisable value. The cost of inventories is assigned using the average costing formula. ESPO inventories are held as Stores Stocks at Grove Park Enderby for resale to member authorities, other local authorities and customers.

l. 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 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.

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 (eg there is a rent-free period at the commencement of the lease).

m. <u>Property, Plant and Equipment</u>

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 (ie 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 fair value and are revalued annually to ensure that the carrying amount is not materially different from their fair value at the year end. Various 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 2010/11 accounts is based on a certificate issued by the Council's Head of Property Services Division as at 31st March 2011. 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 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 relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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 relevant service 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 (ie 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 – a percentage of the value of each class of assets 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 component s 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 sales 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).

n. <u>Provisions, Contingent Liabilities and Contingent Assets</u>

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, ESPO may be involved in 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.

o. 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.

p. VAT and Climate Change Levy (CCL)

Income and expenditure excludes any amounts related to VAT as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

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. Transition to IFRS

The statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of an IFRS-based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result the organisation is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulating Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following charges being made to the 2009/10 financial statements:

a) Opening 1 April 2009 Balance Sheet:

	2009/10 Statements £000	Adjustments Made £000
Provisions	0	(112)
Accumulating Absences Account	0	(112)

b) 31 March 2010 Balance Sheet:

	2009/10 Statements £000	Adjustments Made £000
Provisions	0	(110)
Accumulating Absences Account	0	(110)

c).2009-10 Comprehensive Income and Expenditure Statement:

Cost of Services (Net):

	2009/10 Statements £000	Adjustments Made £000
Employees	9671	(2)

Leases

Under the Code, leases are classified as finance leases where the organisation assumes the risks usually associated with ownership of the asset or where rental costs are effectively equivalent to the asset purchase price. The organisation has recognised that leases of motor vehicles and leases for office equipment should be treated in the financial statements as finance leases, subject to the same minimum purchase value as other non-current assets. Such leases were previously categorised as operating leases.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where ESPO is the lessee) will be unchanged.

The organisation has various motor vehicles issued to staff under a Lease Car Scheme. The lease term is for 3 years. On termination of the lease the organisation bears the financial liability for any losses or gains resulting from the disposal of these vehicles. Office equipment is leased for periods of between 5 and 7 years and rentals effectively equal the purchase price.

As a consequence of classifying such lease as finance leases, the financial statements have been amended as follows:

- The organisation has recognised these assets and finance lease liabilities.
- The operating lease charges within Transport and Office Expenses have been reduced by the amount that relates to the capital element of the lease payments.
- A depreciation charge has been included within Equipment.
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account. This transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.

- The interest elements of the lease payments are charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

This has resulted in the following changes being made to the 2009/10 financial statements:

a) Opening 1 April 2009 Balance Sheet:

	2009/10 Statements £000	Adjustments Made £000
Property, Plant and Equipment (leased assets)	10563	262
Short-term Borrowings	0	(103)
Other Long-Term Liabilities (finance lease liabilities)	0	(124)
Capital Adjustment Account	(147)	35

b) 31 March 2010 Balance Sheet:

	2009/10 Statements £000	Adjustments Made £000
Property, Plant and Equipment (leased assets)	11423	319
Short-term Borrowings	0	(73)
Other Long-Term Liabilities (finance lease liabilities)	0	(215)
Capital Adjustment Account	1211	31

c) 2009-10 Comprehensive Income and Expenditure Statement

Cost of Services (Net):

	2009/10 Statements £000	Adjustments Made £000
Other Customer and client Receipts	(7748)	73
Transport	1386	(141)
Equipment	1215	66
Office Expenses	326	(6)
Financing and Investment Income and Expenditure	(2)	12

The net change to the Cost of Services consists of the removal of the operating lease charges for the capital element of the lease (reduction of £135,000) and the inclusion of the depreciation charges (increase of £66,000).

The net effect on the Surplus or Deficit on the Provision of Services is removed by the transfer of the depreciation charge to the Capital Adjustment Account. This transfer is shown in the Movement in Reserves Statement

3. 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:

- The potential outcome of a legal claim against the organisation for a breach of contract. An earmarked reserve has been established in 2010/11 to provide for the potential legal costs of defending this claim.

- ESPO's premises at Grove Park, Enderby has been subject to a revaluation as at 31 March 2011 by the Property Department of Leicestershire County Council (the organisation's servicing authority). The resulting reduction in the fair value of £511,000) is reflected in the financial statements.

- The Staff Bonus Scheme is under review regarding its appropriateness to a local authority organisation. The scheme is applicable to all staff and is dependent on the achievement of independently determined annual performance targets. An earmarked reserve for pay harmonisation has been established in 2010-11 to provide for the potential cost of buying out the scheme.

4. 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.

The items in the organisation's Balance Sheet at 31 March 2011 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 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. The Strategic Review of ESPO by Deloitte and ESPO's reliance its ability to sustain spending on asset repair and maintenance, bringing into doubt the useful lives assigned to assets, in particular with regards to the Grove Park premises.	If the useful live 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 £1,200 for every year that useful lives had to be reduced.
Debtors	At 31 March 2011, ESPO had a balance of sundry sales ledger debtors of £6.1 million. A review of overdue debts has identified that an impairment for doubtful debts of £86,900 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 £61,000 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 2011 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 £151,000. This value is based on an estimate of sales over the next 12 month period. However, it is not certain that sales forecasts are accurate, that the products will not be included in the next catalogue and that the write down is sufficient or excessive.	If 10% of the products for which excess stocks have been identified are included in the catalogue for 2012/13, the resulting reduction in stock write down would be £15,000. If sales volumes in 2011/12 change by 10% for products where ESPO holds stocks in excess of one years sales, the value of the write down would need to change by £20,000

5. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Consortium Treasurer on 16 June 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. 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 authority to meet future capital and revenue expenditure.

2010/11	**Usable Reserves**								
	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs & Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked pay Harmonisation	Earmarked Legal Claim	Strategic Review Implementation	**Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:									
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement;</u>									
Charges for depreciation and impairment of non current assets	595							595	(595)
Amortisation of intangible assets	36							36	(36)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	74							74	(74)
Gain/loss on disposal of non current assets	(6)							(6)	6
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>									
Statutory provision for financing of capital investment (Grove Park)	(500)							(500)	500
Statutory provision for financing leased capital investment	(98)							(98)	98
Use of General Fund to finance new capital expenditure	(55)							(55)	55
Adjustments involving the Earmarked Reserves:									
Use of reserves to finance new capital expenditure	0	(84)	(219)					(303)	303
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	(11)							(11)	11
Total Adjustments	**35**	**(84)**	**(219)**					**(268)**	**268**

2009/10 comparative figures	**Usable Reserves**								
	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs & Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked Pay Harmonisation	Earmarked Legal Claim	Strategic Review Implementation	**Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:									
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>									
Charges for depreciation and impairment of non current assets	515							515	(515)
Amortisation of intangible assets	19							19	(19)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	88							88	(88)
Gain/loss on disposal of non current assets	(15)							(15)	15
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>									
Statutory provision for financing of capital investment (Grove Park)	(500)							(500)	500
Statutory provision for financing leased capital investment	(135)							(135)	135
Use of General Fund to finance new capital expenditure	(80)							(80)	80
Adjustments involving the Earmarked Reserves:									
Use of reserves to finance new capital expenditure		(36)	(530)					(566)	566
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	(2)							(2)	(2)
Total Adjustments	**(110)**	**(36)**	**(530)**					**(676)**	**676**

7. Transfers to/from 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 2010/11.

	Balance at 1 April 2009	Transfers out 2009/10	Transfers in 2009/10	Balance at 31 March 2010	Transfers out 2010/11	Transfers In 2010/11	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Earmarked Projects Reserve	314	(46)	1	269	(95)	451	625
Earmarked Repairs and Renewals Reserve	1457	(530)	397	1324	(219)	448	1553
Earmarked Property Maintenance Reserve	156	0	36	192	(29)	25	188
Earmarked Pay Harmonisation						520	520
Earmarked Legal Claim						500	500
Strategic Review Implementation						400	400
Total	**1927**	**(576)**	**434**	**1785**	**(343)**	**2344**	**3786**

8. Other Operating Expenditure

2009/10 £000		2010/11 £000
790	Dividend payable to member authorities	974
(15)	Gains/losses on disposal of non current assets	(6)
775	**Total**	968

9. Financing and Investment Income and Expenditure

2009/10 £000		2010/11 £000
487	Interest payable and similar charges	466
(2)	Interest receivable and other similar income	(5)
485	**Total**	461

10. Property, Plant and Equipment

Movements in Balances

Movements in 2010/11

	Land and Buildings	Vehicles, Plant and Equipment		Total Property, Plant and Equipment
Cost or Valuation	£000	£000		£000
At 1 April 2010	10,100	3,274		13,374
Additions		378		378
Revaluation Increase/(decrease) recognised in the Revaluation Reserve				
Revaluation Increase/(decrease) recognised in the Surplus/Deficit on the Provision of Services	(600)			(600)
Derecognition – disposals		(293)		(293)
At 31 March 2011	**9,500**	**3,359**		**12,859**
Accumulated Depreciation and Impairment				
At 1 April 2010	0	(1,714)		(1,714)
Depreciation charge	(89)	(506)		(595)
Impairment losses/(reversals) recognised in the Revaluation Reserve				
Impairment losses/(reversals) recognised in the Surplus/Deficit in the Provision of Services	89			89
Derecognition – disposals		224		224
At 31 March 2011	**0**	**(1,996)**		**(1,996)**
Net Book Value:				
At 31 March 2011	**9,500**	**1,363**		**10,863**
At 31 March 2010	**10,100**	**1,560**		**11,660**

Comparative Movements in 2009/10:

	Land and Buildings	Vehicles, Plant and Equipment		Total Property, Plant and Equipment
Cost or Valuation:	£000	£000		£000
At 1 April 2009	9,500	2,892		12,392
Additions		769		769
Revaluation Increase/(decrease) recognised in the Revaluation Reserve				
Revaluation Increase/(decrease) recognised in the Surplus/Deficit on the Provision of Services	600			600
Derecognition – disposals		(387)		(387)
At 31 March 2010	**10,100**	**3,274**		**13,374**
Accumulated Depreciation and Impairment:				
At 1 April 2009	0	(1,595)		(1,595)
Depreciation charge	(82)	(434)		(516)
Impairment losses/(reversals) recognised in the Revaluation Reserve				
Impairment losses/(reversals) recognised in the Surplus/Deficit in the Provision of Services	82			82
Derecognition – disposals		315		315
At 31 March 2010	**0**	**(1,714)**		**(1,714)**

<u>Depreciation:</u>

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

1. Land and Buildings – 70 years
2. Vehicles, Plant and Equipment – 4 to 10 years

<u>Capital Commitments:</u>

At 31 March 2011, ESPO has entered into a number of contracts for the purchase of six commercial vehicles during 2011/12 valued at £237,000. Similar commitments at 31 March 2010 were seven commercial vehicles valued at £243,000.

Revaluations:

ESPO undertakes an annual revaluation programme to ensure that the value of the premises at Grove Park, Enderby is correctly measured at fair 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 £000	Vehicles, Plant and Equipment £000		Total Property, Plant and Equipment £000
Carried at historical cost	0	3,359		3,359
Valued at fair value at 31 March 2011	9,500			9,500
Total Cost or Valuation	**9,500**	**3,359**		**12,859**

11. 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. Internally generated software is valued below the minimum value for inclusion in non current assets.

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 £36,000 charged to revenue in 2010/11 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:

	2010/11 Purchased Software £000	2009/10 Purchased Software £000
Balance at start of year:		
• Gross carrying amount	248	175
• Accumulated amortisation	(166)	(147)
Net carrying amount at start of year	82	28
Additions – Purchases.	77	73
Amortisation for the period	(36)	(19)
Net carrying amount at end of year	123	82
Comprising:		
• Gross carrying amount	325	248
• Accumulated amortisation	(202)	(166)
	123	82

12. Financial Instruments

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

	Long-Term		Current	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	£'000	£'000	£'000	£'000
Debtors: Financial assets carried at contract amounts			7,219	7,721
Total Debtors			7,219	7,721
Borrowings: Financial Liabilities at amortised cost	9,500	10,000	761	757
Total Borrowings	9,500	10,000	761	757
Other Long Term Liabilities: Finance Lease liabilities	200	215		
Total other long term liabilities	200	215		
Creditors: Financial liabilities carried at contract amounts			10,250	9,859
Total Creditors			10,250	9,859

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:

	2010/11		2009/10	
	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	(451)		(475)	
Bank interest payable on leased assets loans	(15)		(12)	
Bank and short term investment interest receivable		5		2
Net gain/(loss) for the year	(466)	5	(487)	2

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 2011 of 4.71% 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 2011		31 March 2010	
	Carry Amount £'000	Fair Value £'000	Carry Amount £'000	Fair Value £'000
Financial Liabilities – Premises loan from Leicestershire County Council	10,175	10,056	10,684	10,654
Other Long-term creditors	223	223	251	251

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.

13. Inventories

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

	2010/11	2009/10
	£000	£000
Balance outstanding at start of year	4488	4122
Purchases	27,932	26,739
Recognised as an expense in the year	(27,746)	(26,361)
Written off balances	(236)	(12)
Balance outstanding at year end	4438	4488

14. Short-Term Debtors

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

1 April 2009	31 March 2010		31 March 2011
£000	£000		£000
659	636	Reserved Debtors	916
8,888	7,213	Sundry Debtors	6388
0	166	Tax Debtor	0
(186)	(294)	Less provision for bad debts	(85)
9,361	7,721	**Total**	7,219

15. Cash and Cash Equivalents

1 April 2009	31 March 2010		31 March 2011
£000	£000		£000
1	1	Cash held by ESPO	1
(258)	314	Bank current accounts	366
6,677	1,487	Bank short-term deposit account	4,617
6,420	1,802	**Total Cash and Cash Equivalents**	4,984

16. Short-Term Creditors

1 April 2009	31 March 2010		31 March 2011
£000	£000		£000
		Supplier balances:	
90	185	• Other local authorities	261
10,875	4,905	• Other entities and individuals:	5,224
2,993	3,245	Reserved creditors and suspense accounts	2,314
446	452	Taxes and duties	412
1,123	790	Member authority dividends	1,764
272	282	Payroll deductions	275
15,799	9,859	**Total**	10,250

17. Provisions

ESPO has established a short-term provision for employee accumulating absences. The movements during 2010/11 were as follows:

	Other Provisions £000
Balance at 1 April 2010	110
Amounts used in 2010/11	(110)
Additional provisions made in 2010/11	99
Balance at 31 March 2011	99

18. Usable Reserves

Movements in ESPO's usable reserves are detailed in the Movement in Reserves Statement and in Note 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 2011 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, Vehicle/Equipment and Stores 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 determined by Members was set at 2.5% of turnover.

(ii) 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.

(iii) Vehicles/Equipment:

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.

(iv) Stores 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.

(v) Staff Pay Harmonisation:

This reserve provides funding for the expected costs associated with closure of the staff annual bonus scheme.

(vi) Legal Claim:

This reserve provides funding for the organisation's anticipated legal costs in defending a claim in respect of the termination of a design and marketing agreement.

(vii) Strategic Review Implementation:

This reserve provides funding for the implementation of recommendations following a strategic review of the organisation undertaken by Deloitte and agreed by ESPO Management Committee.

19. Unusable Reserves

1 April 2009	31 March 2010		31 March 2011
£000	£000		£000
0	2	Revaluation Reserve	0
(112)	1242	Capital Adjustment Account	990
(112)	(110)	Accumulated Absences Account	(99)
(224)	1134	**Total**	891

<u>Revaluation Reserve</u>

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.

	2010/11	2009/10
	£000	£000
Balance at 1 April	0	2
Difference between the fair value depreciation and historical cost depreciation:	2	0
Impairment losses not charged too the surplus/deficit on the Provision of Services	0	(2)
Balance at 31 March	2	0

<u>Capital Adjustment Account</u>

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.

2009/10		2010/11	
£000		£000	
(112)	**Balance at 1 April**		1242
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(515)	• Charges for depreciation and impairment of non current assets	(595)	
680	• Revaluation (losses) or gains on Property, Plant and Equipment	(509)	
(19)	• Amortisation of intangible assets	(36)	
	• Revenue expenditure funded from capital under statute		
(73)	• 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	(68)	
(39)			(1208)
	Net written out of the cost of non-current assets consumed in the year		
	Capital financing applied in the year:		
37	• Use of Major Project Earmarked Reserve to finance new capital expenditure	84	
530	• Use of the Repairs and Renewals Earmarked Reserve to finance new capital expenditure	219	
635	• Statutory provision for the financing of capital investment charged against the General Fund	598	
79	• Capital Expenditure charged against the General Fund	55	
			956
1242	**Balance at 31 March**		990

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.

2009/10 £000		2010/11 £000	
(112)	**Balance at 1 April**		(110)
112	Settlement or cancellation of accrual made at the end of the preceding year	110	
(110)	Amounts accrued at the end of the current year	(99)	
2	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		11
(110)	**Balance at 31 March**		(99)

20. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
(3)	Interest Received	(5)
487	Interest paid	466
1123	Dividends paid	0
1607	**Net cash flows from operating activities**	461

21. Cash Flow Statement – Investing Activities

2009/10		2010/11
£000		£000
842	Purchase of Property, Plant and Equipment and intangible assets	455
(87)	Proceeds from the sale of property, plant and equipment and intangible assets.	(74)
755	**Net cash flows from investing activities**	381

22. Cash Flow Statement – Financing Activities

2009/10		2010/11
£000		£000
135	Cash payments for the reduction of outstanding finance lease liabilities	98
508	Repayment of short and long-term borrowing	509
643	**Net cash flows from financing activities**	607

23. Amounts Reported for Resource Allocation Decisions

The analysis of the income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation in 2010/11 were taken by ESPO's Senior Management Team on the basis of financial reports analysed across its two main operating divisions. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- Charges are made in the Management Trading Accounts for the replacement of non-current plant and equipment and intangible assets based on the expected cost of replacement. A Renewals Reserve holds the accumulated charges and purchases of replacements are charged to this reserve.

- No charges are made in relation to depreciation of the Grove Park premises, or for revaluation gains or impairment losses (whereas depreciation on all non current and intangible assets, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged in the Comprehensive Income and Expenditure Statement.

- Repayments of the capital and interest elements of the premises loan and of finance leases are treated as a rental charges in the Management Trading Accounts (whereas the interest elements are included as Financing and Investment Expenditure in the Comprehensive Income and Expenditure Statement and the capital elements are included in the Movement in Reserve statement and identified in Note 6.

- Charges are made in the Management Trading Accounts for purchases of additional non current and intangible assets for which there are no amounts provided within Renewals or Earmarked Reserves (whereas these purchases are excluded from the Comprehensive Income and Expenditure Statement and are included in the Movement in Reserve statement and identified in Note 6.

- No charges are made in the Management Trading Accounts for revenue expenditure on major development projects where an earmarked reserve has been established and approved by the Management Committee (whereas such expenditure is included within the Comprehensive Income and Expenditure Statement and revered out in the Movement in Reserve statement and identified in Note 6.

- No charges are made in the Management Trading Accounts for dividend payments to member authorities

The income and expenditure of the organisation’s principal trading divisions recorded in the Management Trading Accounts for the year is as follows:

Management Trading Account:

2009/10				2010/11		
Stores	Central Purchasing	Total		Stores	Central Purchasing	Total
£000	£000	£000		£000	£000	£000
(36889)	(52272)	(89161)	Sales Income	(38712)	(47831)	(86543)
26373	45746	72119	Cost of Sales	27982	40467	68449
(10516)	(6526)	(17042)	Gross Margin on Sales	(10730)	(7364)	(18094)
			Service Expenditure:			
4782	4889	9671	Employees	4532	4685	9217
57	116	173	Other Employee Expenses	50	108	158
1325	289	1614	Premises	1297	258	1555
1511	183	1694	Transport	1616	170	1786
441	463	904	Equipment	369	470	839
49	277	326	Office Expenses	41	264	305
372	1212	1584	Other Expenses	379	667	1046
67	21	88	Support Service Charges	73	27	100
700	(700)	0	Service Recharges	700	(700)	0
9304	6750	16054	Total Expenditure	9057	5949	15006
(1212)	**224**	**(988)**	**Net (Surplus) / Deficit**	**(1673)**	**(1415)**	**(3088)**

Reconciliation of Management Trading Account to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the Management Trading Account relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2009/10				2010/11		
Stores	Central Purchasing	Total		Stores	Central Purchasing	Total
£000	£000	£000		£000	£000	£000
(1,212)	**224**	**(988)**	**Net Surplus as per ESPO Management Accounts**	**(1,673)**	**(1,415)**	**(3,088)**
			Less income and (expenditure) included in the Management Trading Accounts:			
(400)	(100)	(500)	Capital elements of the premises loan repayments included under Premises	(400)	(100)	(500)
	(130)	(130)	Capital elements of the leased assets repayments included under Transport		(91)	(91)
	(5)	(5)	Capital elements of the leased assets repayments included under Office Expenses		(6)	(6)
(433)		(433)	Amounts transferred to Earmarked, Repairs & Renewals and Maintenance Reserves for future capital expenditure included under Equipment	(430)	(40)	(470)
	2	2	Interest receivable included under Sales Income		5	5
(392)	(95)	(487)	Interest payable included under Other Expenses	(375)	(96)	(471)
33	55	88	Income from disposals of non current assets included under Sales Income	21	53	74
(33)		(33)	Non current assets purchases included under Transport	(35)		(35)
	(47)	(47)	Non current assets purchases included under Equipment	(20)		(20)
(1,225)	(320)	(1,545)		(1,239)	(275)	(1,514)
			Plus (income) and expenditure not included in Management Accounts but included in the Comprehensive Income and Expenditure Statement:			
411	123	534	Depreciation of non current assets and amortisation of intangible assets included under Equipment	486	145	631
7	(9)	(2)	Compensated absences included under Employees	13	(24)	(11)
10	0	10	Earmarked Reserves revenue expenditure included under equipment	40	0	40
428	114	542		539	121	660
(2,009)	**18**	**(1,991)**	**(Surplus)/Deficit on Net Cost of Services line on the Comprehensive Income and Expenditure Statement.**	**(2,373)**	**(1,569)**	**(3,942)**

There is no segmental reporting of the organisation's assets and liabilities as these are not segregated for management reporting.

Officers Remuneration

a) Apart from the senior officers who are listed in note b) below, there were no officers in either 2009/10 or in 2010/11 whose emoluments met or exceeded £50,000. Therefore this table has been omitted.

b) The following table sets out the remuneration disclosures for senior officers whose salary is less than £150,000 but equal or more than £50,000 per year:

Postholder Information (Post Title)	Salary (inc fees & allowances)	Bonuses	Benefits in Kind (e.g. Car Allowances)	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
2010/11	£	£	£	£	£	£
Director	73,776	0	2,426	76,202	13,288	89,490
Deputy Director	78,356	3,066	3,019	84,441	17,314	101,755
Assistant Director (Commodity)	68,625	2,059	2,710	73,394	13,741	87,135
Assistant Director (Finance)	68,625	2,059	2,436	73,120	13,741	86,861
Assistant Director (Operations)	62,907	1,887	2,372	67,166	13,087	80,253
	352,289	9,071	12,963	374,323	71,171	445,494

NOTE: In 2010/11 the ESPO Director retired on the 30th September 2010 and therefore the above salary reflects six months of remuneration. The Deputy Director changed from full-time to part-time from the 1st September 2010 and therefore the above remuneration reflects this.

2009/10 Comparatives						
Director	127,805	7,586	5,085	140,476	28,112	168,588
Deputy Director	97,704	4,262	2,814	104,780	19,822	124,602
Assistant Director (Commodity)	65,790	3,737	2,907	72,434	13,498	85,932
Assistant Director (Finance)	65,813	3,737	1,656	71,206	13,498	84,704
Assistant Director (Operations)	62,907	3,737	2,047	68,691	13,447	82,138
	420,019	23,059	14,509	457,587	88,377	545,964

24. External Audit Costs

Eastern Shires Purchasing Organisation incurred the following audit fees:

	2010/11	2009/10
	£'000	£'000
Fees payable to external auditors with regard to external audit services and statutory inspection carried out by the appointed auditor under the Audit Commission's *Code of Audit Practice* in accordance with section 5 of the Audit Commission Act 1998.	26.4	25.0
The audit fees in 2010/11 include £2,000 relating to additional work undertaken in 2009/10 charged after the 2009/10 Statement of Accounts was issued.		

25. 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 2010/11 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 2010/11 no officers declared a pecuniary interest in any contractual or financial transactions.

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

ESPO provides goods and services to all member authorities and as a consequence amounts due from member authorities including LEA schools for such transactions amounted to £2.777 million as at 31 March 2011 (£3.497 million as at 31 March 2010) and are included in 'Sundry Debtors' as detailed in note 15 to the Statement of Accounts. The amounts owing from each member authority are as follows:

Analysis of Sundry Debtor balances at 31st March 2010.	2010/11	2009/10
	£000	£000
Member Authorities:		
Cambridgeshire County Council	285	380
Leicester City Council	375	404
Leicestershire County Council	590	691
Lincolnshire County Council	469	636
Norfolk County Council	555	843
Peterborough City Council	173	168
Warwickshire County Council	330	375
Other customers	3,611	3,716
Total Sundry Debtors	6,388	7,213

Amount due to member authorities for services they provided to ESPO amounted to £0.26 million as at 31 March 2011 (£0.18m at 31 March 2010) 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 at 31st March 2010.	2010/11	2009/10
	£000	£000
Member Authorities:		
Norfolk County Council	0	89
Warwickshire County Council	0	9
Leicestershire County Council	261	87
Other Suppliers	5,224	4,905
	5,485	5,090

26. Capital Expenditure and Capital Financing

ESPO finances the purchase of routine replacement non current and intangible assets from the Vehicles and Equipment Renewals Reserve or the Stores 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:

2009/10			**2010/11**	
Intangibles	Vehicles & Equipment		Intangibles	Vehicles & Equipment
£'000	£'000		£'000	£'000
37	43	Financed from Revenue		152
36		Financed from Earmarked Reserves	77	7
	530	Financed from Vehicle & Equipment Reserves		219
		Financed from Stores Maintenance Reserves		
73	573		77	378

Capital expenditure commitments:	31 March, 2011 £000	31 March, 2010 £000
The organisation entered in commitments during 2010/11 for the purchase of non current assets in the following financial year, 2011/12. Payments on these contracts remain outstanding at 31 March 2011 at which date ESPO was committed to purchase six commercial vehicles in 2011/12, (2009/10 commitment was seven commercial vehicles to be purchased in 2010-11).	237	243

27. Leases

Finance Leases

The organisation has acquired its motor car fleet and selected office copiers under finance leases. Copiers below the minimum capital purchase value of £5,000 continue to the 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 2010		31 March 2011
£000		£000
319	Vehicles, Plant and Equipment	281

The organisation is committed to making payments under these leases comprising of the long-term liability for the interest in the property acquired by ESPO and finance costs that will be payable by ESPO in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2010		31 March2011
£000		£000
	Finance lease liabilities (not present value of minimum lease payments):	
	• Current	
288	• Non current	286
36	Finance costs payable in future years	31
324	Minimum lease payments	317

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payment		Finance Lease Liabilities	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	£000	£000	£000	£000
Not later than one year	102	89	86	73
Later than one year and not later than five years	215	235	200	215
	317	324	286	288

Operating Leases

ESPO has acquired office copiers and food vendors 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:

31 March 2010		31 March 2011
£000		£000
11	Not later than one year	7
16	Later than one year and not later than 5 years	9
27	Minimum lease payments	16

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

31 March 2010		31 March 2011
£000		£000
10	Minimum lease payments	11

28. Impairment Losses

During this financial year ESPO has recognised an impairment loss of £511,000 in relation to its premises at Grove Park, Enderby. The premises have been valued on a fair value basis at £9.5 million by the Property Services Department of Leicestershire County Council at 31 March 2011. A similar valuation was carried out at 31 March 2010 resulting in an upwards revaluation to £10.1 million and a revaluation gain of £682,000. The impairment loss for 2010/11 and the prior year gain are included within the Consolidated Income and Expenditure Statement. There has been no change of use during this period and the organisation continues to utilise the premises as its operational head quarters, warehouse and distribution centre.

29. Pensions

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 administered by Leicestershire County Council. 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 2010/11 ESPO paid an employer's contribution of £1,031,169, (2009/10 - £1,035,880), into the Pension Fund, representing an average 16.5% of total pensionable pay. The rate of contribution was based upon the actuarial review as at March 2007 and resulted in a requirement for the common contribution rate of employer's contributions to increase from 250% in 2008-09 to 270% of employees' contributions in 2010/11.

In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2010/11 these amounted to £33,375, (2009/10 - £10,066), representing 0.5% of pensionable pay.

30. Contingent Liabilities

A claim was received in 2009/10 in respect of the termination of a design and marketing agreement. The validity of the claim was disputed and no Provision was created in the 2009/10 accounts. The claimant subsequently filed a claim with the High Court in London in April 2011. The organisation continues to dispute the claim and has established a reserve of £500,000 in 2010/11 to cover for potential defence legal costs. This is included as an earmarked usable reserve in the Movement in Reserves Statement at 31 March 2011. Further details of the claim have not been disclosed as this may prejudice the legal position.

31. 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. Risk management is carried out by the Senior Management 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.

<u>Credit Risk</u>

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.

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.

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

	Amount at 31 March 2011 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2011 %	Estimated maximum exposure to default and uncollectability 31st March 2011 £000	Estimated maximum exposure at 31st March 2010 £000
Bank Deposits	315	0	0	0	0
Investments (see Note 17)	1,487	0	0	0	0
Customers	6,388	0.88%	2.13%	136.2	36.4
				136.2	36.4

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 normally allows credit terms of between 14 and 45 days for customers. A total of £1.22m of the balance of £6.39m was overdue at 31st March 2011 and can be analysed as follows:

Overdue Debtors:

	31 March 2011 £000	31March 2010 £000
Less than one month overdue	780	834
Between one and three months	225	201
More than three months overdue	214	292
	1,219	1,327

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 2011 £'000	Total Long -Term Outstanding at 31 March 2010 £'000
Lender:		
• Leicestershire County Council	9,500	10,000
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	5,000	5,500

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. The effect of a 1% increase in rates would be an increase in income on investments of £21,000 and an increase in expenditure on borrowings of £1,000.

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

Price Risk:
The organisation does not invest in equity shares and therefore has no exposure to gains or losses arising from movements in share prices.

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.

Annual Governance Statement

Scope of responsibility

Eastern Shires Purchasing Organisation (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 for facilitating the effective exercise of its functions which includes arrangements for the management of risk.

ESPO Management Committee approved and adopted a Consortium Agreement in April 1999 and a Consortium Code of Practice in April 2000. These contain the organisation's code of corporate governance and are consistent with the principles of the CIPFA/ SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Consortium Agreement and Code of Practice can be obtained from the Director at ESPO's offices in Enderby.

This statement explains how ESPO has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk 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 system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ESPO's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at ESPO for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

The key elements of the systems and processes that comprise the organisation's governance arrangements are:

Governance framework

- ESPO is a local authority joint committee established by five county councils and two unitary authorities to operate as a consortium for the purchase of goods and services for their mutual benefit. The organisation has adopted a Consortium Agreement and Code of Practice which set out how the consortium operates, its purpose and objectives, how decisions are made and the procedures that are followed to ensure these are efficient, and accountable to member authorities.

- Policy and decision making is facilitated through the establishment of a Management Committee consisting of up to three elected councillors from each of the seven member authorities. Meetings are open to the public except where personal or confidential matters are being disclosed. The position of Committee Chairman is elected annually from committee members and rotates to a councillor from each member authority in rotation. The role of Consortium Secretary is undertaken by the Chief Executive of Leicestershire County Council, the organisation's servicing authority.
- The responsibility for the training, development and remuneration of elected councillors to the ESPO Management Committee rests with the individual authority that each councillor represents. ESPO makes no payments to members of the Management Committee. In order to assist committee members to understand ESPO, its policies, objectives and the

services provided to member authorities, the organisation offers induction training for new members.

- The Management Committee has approved a scheme of delegated authority to the Director of ESPO for the operational management of the organisation. The Director is supported by a Deputy Director and by three Assistant Directors who represent the organisation's main functional divisions of Procurement, Operations and Finance and who together constitute the organisation's Senior Management Team (SMT). The SMT are responsible for the routine operational management of the organisation, for implementing the plans policies and projects approved by the Management Committee and for compliance with relevant legislation.

- Through reviews by external auditors, external agencies and internal auditors from Leicestershire County Council, ESPO constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the provisions of its services having regard to a combination of competitive pricing, operational efficiency and service effectiveness as required to meet the needs of member authorities and other customers within the consortium area.

- The quality of its services is measured through annual independent customer satisfaction surveys, annual price benchmarking against competitor organisations, service user advisory panels, and performance KPIs. Use of the consortium's services is voluntary, it receives no grants or funding and it competes with commercial providers therefore the ultimate measure of customers' satisfaction is reflected in the use of its services as measured by turnover values.

- Services are delivered by trained, experienced and when required qualified people. Training for relevant professional qualifications is encouraged and financial assistance is provided. All new employees receive induction training which is tailored to the needs of their post. All posts have a detailed job description and for legal purposes all ESPO staff are employed by Leicestershire County Council on a rechargeable basis. Where practical ESPO adopts the employment policies, code of conduct and conditions of service of Leicestershire County Council. These may be adapted to reflect local conditions of service necessitated by the commercial nature of the organisation.

- The Monitoring Officer is the County Solicitor of our servicing authority, Leicestershire County Council. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.

- The Chief Financial Officer is the Director of Corporate Resources of Leicestershire County Council who is ultimately responsible for ensuring that the administration of the organisation's financial management arrangements conforms to the governance requirements of the CIPFA Statement on *The Role of the Chief Financial Officer in Local Government (2010)*. The operational management of the organisation's finances is the responsibility of the ESPO Assistant Director (Finance) who is functionally accountable to the Chief Financial Officer.

- Leicestershire County Council acts as the servicing authority to ESPO and in this role provides appropriate support services under terms agreed in a Memorandum of Understanding including internal auditing which operates to standards set out in the 'Code of Practice for Internal Audit in Local Government'.

- The consortium maintains an objective and professional relationship with external auditors and statutory inspectors and conducts the financial management of the consortium in accordance with the financial regulations of Leicestershire County Council.

- With the outcome of the review of ESPO it is intended that in future the performance of ESPO will be overseen by the Management Committee, supported by a Chief Offices Group (COG). The purpose of COG is to support in the Director in the strategic outcomes for ESPO. It is intended that a new four year business strategy and business plan will be agreed with key stakeholders. The business strategy will articulate the strategic vision, organisational values, aims and business objectives. Supporting this will be a clear set of measureable actions for the coming financial year. Performance against this annual business plan will be reported quarterly to the Management Committee.

- The business strategy will be reviewed annually in conjunction with the Senior Officer Group (SOG) from member authorities and through COG approved by the Management Committee and the business plan updated for the forthcoming year.

- The understanding of risk in the organisation has been extensively reviewed and organisation changes are being put in place. It is intended that procurement projects will be managed through a business case process where costs, resources, risk, intended outcomes, etc. are assessed through a compliance process. Where abnormal risk is assessed such projects will be escalated to the Senior Management and the Management Committee where deemed necessary.

- In future performance will be more clearly set out and measured in the annual cycle of service reviews and reports, in the financial planning and budgeting cycle and in annual customer surveys. The Management Committee will monitor and scrutinise progress against targets and performance in key areas, and consider and approve corrective action where necessary.

Review of effectiveness

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 executive managers within the organisation who have responsibility for the development and maintenance of the governance environment, the Head of Leicestershire County Council Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

- The member authorities have appointed a joint committee for the purpose of managing ESPO, known as "The Management Committee" which consists of up to three elected councillors from each member authority who meet four times each year. This committee's responsibilities include overview, scrutiny and audit. The Management Committee is responsible for determining the consortium corporate governance arrangements and follows the framework and guidance issued by CIPFA.

- The Director's Annual Report and periodic Progress and Financial Reports to the Management Committee assess performance against the organisation's business plan, performance targets and agreed objectives. Financial budgets are prepared annually by ESPO senior management for Committee approval. Major risks to the organisation are assessed by senior management and appropriate action is taken where risks exceed the approved risk threshold. ESPO management reports progress on managing business risks to Committee annually. Requests for committee approval of key development projects include a comprehensive risk assessment within the business case. A business continuity plan is being developed which will define how the organisation will maintain its business and supports member authorities in the event of an incident, either to its business or that of a member authority

- The quality and effectiveness of ESPO systems of internal control is monitored by Leicestershire County Council (LCC) Internal Audit. A four year audit plan is agreed with the Director of ESPO from which the annual workload is identified. The audit reporting process requires a report of each audit to be submitted to the relevant Divisional Manager and Director. Recommendations for improvements are included in an action plan and require agreement or rejection by managers. The process includes reviews of recommendations to ensure that they are implemented. A summary of all internal audit recommendations is reported to the Management Committee together with an update on implementing their recommendations.

- The work of LCC Internal Audit Section is subject to review by the ESPO's external auditors to the extent necessary to place reliance on the work carried out by the section.

- A Chief Officer Group consisting of Chief Officers from each member authority was established in 2010/11 and meets quarterly or more frequently where appropriate. The role of this group is to oversee the strategic direction of the organisation and strengthen the working arrangements between member authorities and with ESPO.

- A Senior Officer Group consisting of senior managers from each member authority meets regularly with ESPO senior management to review matters of common interest in order to ensure that procurement plans, policies and objectives of ESPO and those of its member authorities are compatible.

- Partnership Improvement Agreement (PIA) meetings are held regularly between senior managers of ESPO and individual member authorities for an operational review of service performance in meeting the needs of each individual authority.

- ESPO Senior Management Team (SMT) meets weekly to review progress against targets on key business performance indicators, to review periodic financial statements and to consider progress on key development projects. When operationally required, the SMT may determine, agree and instigate immediate corrective actions to promote success or correct underperformance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Director and Senior Management Team and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

No.	Issue	Action
1	The recommendations from CIPFA/ SOLACE on Corporate Governance assumes responsibilities relating to elected members that can only apply to member authorities, such as determining standards of conduct, members' training, succession planning and the role of "Leader".	The Consortium Code of Practice will be updated once the Governance Workstream, from the Review outcomes, has finalised its documentation. This update will recognise the role and responsibilities of member authorities for elected committee members' standards of conduct, training, succession planning etc.

We propose over the coming year to take steps to address the above matters where appropriate 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.

Signed:

D. Summersgill
Interim Director of ESPO

Date: ……………………… 2011

Councillor -----------
Chairman, ESPO Management Committee

Date: ……………………… 2011