

## 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(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement that accompanies the annual statement of accounts.

### **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.

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- 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. 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. ESPO adopts the employment policies, including policies relating to whistleblowing, fraud, dignity at work, bribery and grievance together with the 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

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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. The financial position of the organisation is accurately and reliably reported in performance reporting and other published statements.
- ESPO promotes sustainability through its consultancy services, procurement recommendations and by clearly identifying products in its catalogues which are recycled, biodegradable, energy efficient low polluting and reusable.

### **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

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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.
- A Business Strategy Review of the organisation commenced in December 2010 by Deloitte Consultants at the request of the Management Committee. The aim of the review was to investigate the appropriateness of the current business strategy, reviewing the role and purpose of ESPO, its alignment with the members' requirements, the value of partnering with ESPO, and the options going forward. This resulted in a revised vision and service model being proposed together with a number of recommendations to improve the operational efficiency and effectiveness of ESPO
- Following the completion of the Business Strategy Review in April 2011 and its subsequent recommendations, the Chief Officer Group (COG) and the Management Committee agreed to establish a change programme. This constituted the mandate for the Programme. An Outline Implementation Proposal was developed and approved by the Management Committee in June 2011. It was agreed that the COG would constitute the Programme Board to make key decisions and oversee the monitoring and review the progress made.
- A formal change program commenced in September 2011 which encompasses the constitution, governance and risk management, organisational structures and capabilities, performance management framework, business model and category management approach. The planned timescale for determining strategies, governance arrangements and for implementation extends until September 2012.
- During 2010/11 the understanding of risk in the organisation has been extensively reviewed and organisation changes are being put in place. For 2011/12 onwards 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 ultimately to the Management Committee where deemed necessary.

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- For 2011/12, performance will be 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 role will be to monitor and scrutinise progress against targets and performance in key areas, and to consider and approve corrective action where necessary.

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**

<b>No.</b>	<b>Issue</b>	<b>Action</b>
1	The recommendations of the Business Strategy Review carried out by Deloitte in 2010/11 required implementing. A Change Management Programme commenced in September 2011 in conjunction with officers from member authorities to implement the revised vision and service model and to improve operational efficiency and effectiveness	To present the recommendations of the Change Management Programme to the Management Committee for approval during 2011/12 and to implement the agreed changes by September 2012.
2	To effectively manage the risks associated with procurement projects	To implement a business case process for procurement projects where costs, resources, risk, intended outcomes, etc. are assessed through a compliance process.

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

Dr R K A Feltham CC  
Chairman, ESPO Management  
Committee

Date: ..... 2011