

ESPO COMBINED ANNUAL REPORT AND ACCOUNTS 2006/07

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ANNUAL REPORT

INTRODUCTION

I am pleased to report that we are within 2% of the total value of turnover/contracts compared with the previous year, a year which reflected an increase of 22% on the previous year following the acquisition of Northamptonshire County Supplies and a number of high value contracts placed by our Strategic Procurement Division.

Excluding Strategic Contracts, which can vary due to single multi-million pound contracts, the overall growth in Stores, Directs and Period Contracts exceeded 13% compared to the previous year.

Growth in Stores business amounted to nearly 4% compared to 14% the previous year which rose significantly due to the acquisition of Northamptonshire County Supplies.

Growth in Direct Orders amounted to nearly 5%, despite the 38% increase the previous year, again mainly attributed to the Northamptonshire acquisition.

Growth in Period Contracts reflects an increase of 15%, despite an increase of over 19% the previous year.

The reduction of nearly 46% in the value of strategic procurement is not a reflection of a downturn in the number of strategic contracts which we exposed to competition but a reflection of single high value contract the previous year. The figures therefore actually hide significant growth within the Strategic Procurement Division which has risen by 163% when one single one-off contract is taken into account.

This growth, coupled with overhead expenditure being lower than that projected mid-year, has resulted in the organisation being within 90% of the original budgeted surplus.

TRADING RESULTS

The chart below provides a detailed analysis of the trading results compared to the previous year.

Annual Turnover Statistics 2006/07

	Stores *		Direct Orders		Period Contracts		Strategic	
	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
CAMBRIDGESHIRE	2,155	2,250	1,507	2,030	25,609	29,623	1,420	7,281
LEICESTER CITY	2,067	2,211	7,383	1,907	36,796	41,793	3,070	852
LEICESTERSHIRE	2,697	2,727	3,491	1,889	54,267	54,524	2,260	5,078
LINCOLNSHIRE	2,830	2,966	1,319	1,376	13,789	18,971	4,870	442
NORFOLK	3,684	3,684	5,596	3,524	36,830	51,352	40	40
PETERBOROUGH CITY	861	837	467	425	7,141	8,512	710	1,200
WARWICKSHIRE	2,159	2,241	2,683	2,990	14,199	18,138	80	12
DISTRICT COUNCILS								
Cambridgeshire	140	121	2,086	700	2,231	3,309	0	48
Leicestershire	68	74	260	278	3,913	5,396	290	421
Lincolnshire	80	69	53	49	2,055	2,836	0	36,700
Norfolk	84	89	478	545	5,028	5,596	820	150
Warwickshire	27	33	33	121	1,361	1,811	170	0
Other Users	11,015	11,624	15,352	26,793	32,070	29,961	86,760	2,122
TOTAL EXPENDITURE	27,867	28,926	40,708	42,627	235,289	271,821	100,490	54,346
% Variance over previous year	14.13	3.80	38.58	4.72	19.23	15.53	24.54	-45.92

* Excludes Books

The following chart details the same statistics but provides a clearer picture of the total trading position under the four main methods of procurement.

		Turnover		Variance
		2005-06	2006-07	
		£000s	£000s	%
Cambridgeshire	Stores	2,155	2,250	4.41
	Directs	1,507	2,030	34.70
	Period Contracts	25,609	29,623	15.68
	Strategic/Consultancy	1,420	7,281	412.75
	Total	30,691	41,184	34.19
Leicester City	Stores	2,067	2,210	6.92
	Directs	7,383	1,907	-74.17
	Period Contracts	36,796	41,793	13.58
	Strategic/Consultancy	3,070	852	-72.24
	Total	49,316	46,762	-5.18
Leicestershire	Stores	2,697	2,727	1.11
	Directs	3,491	1,889	-45.89
	Period Contracts	54,267	54,524	0.47
	Strategic/Consultancy	2,260	5,078	124.69
	Total	62,715	64,218	2.40
Lincolnshire	Stores	2,830	2,966	4.81
	Directs	1,319	1,376	4.32
	Period Contracts	13,789	18,971	37.58
	Strategic/Consultancy	4,870	442	-90.92
	Total	22,808	23,755	4.15
Norfolk	Stores	3,684	3,684	0.00
	Directs	5,596	3,524	-37.03
	Period Contracts	36,830	51,352	39.43
	Strategic/Consultancy	40	40	0.00
	Total	46,150	58,600	26.98
Peterborough	Stores	861	837	-2.79
	Directs	467	425	-8.99
	Period Contracts	7,141	8,512	19.19
	Strategic/Consultancy	710	1,200	69.01
	Total	9,179	10,974	19.55
Warwickshire	Stores	2,159	2,241	3.80
	Directs	2,683	2,990	11.44
	Period Contracts	14,199	18,138	27.74
	Strategic/Consultancy	80	12	-84.75
	Total	19,121	23,381	22.28
	Sub-total Member Authorities	239,980	268,874	12.04
Districts & Others	Total	164,374	128,847	-21.61
	Grand Total	404,354	397,721	-1.64

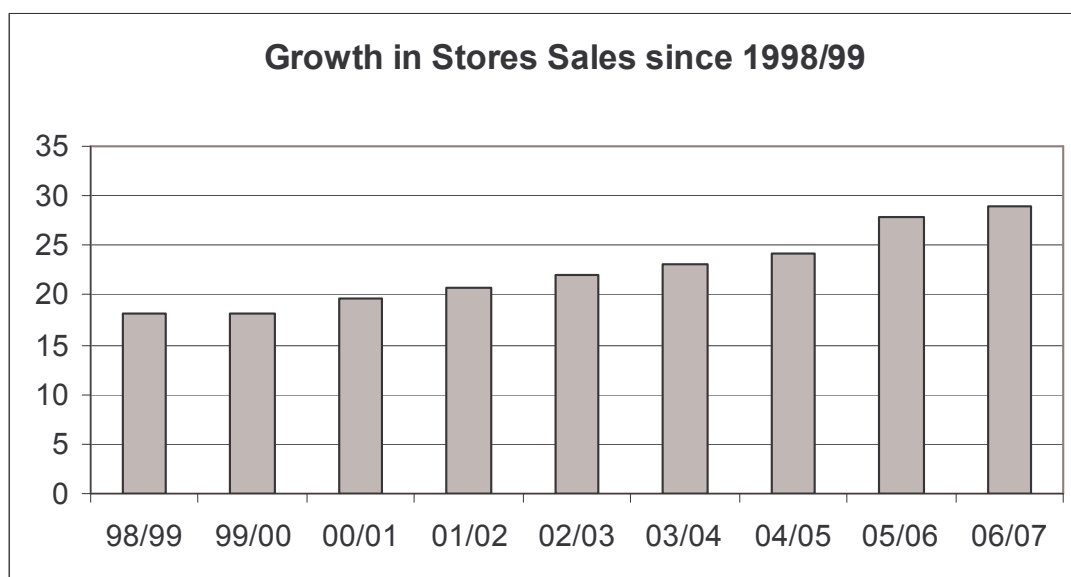
* Excludes Books

Stores

Despite the 14% growth last year following the acquisition of Northamptonshire County Supplies which included their customers in Milton Keynes, Coventry and Oxfordshire, I am pleased to report that for 2006/07 not only did we hold the increased level of business, but increased it by nearly 4%.

Members were advised on 3rd March 2006 that the Book Centre had been closed on the transfer of ESPO's operations to Grove Park, and this had been replaced by a direct supply contract. Prior to the closure, the turnover with the Book Centre was less than £380,000. However, I am pleased to say that the annual turnover in respect of the direct supply contract was £808,000 with customers growing at a rate of 10 – 15 per week.

Over the last nine years stores sales increased from £19 million to £29 million, an increase of over 52% as illustrated below:



Growth adjusted for price movements	0%	+3.2%	+7.9%	+6.5%	+2.9%	+6.1%	+4.72%	+13.04%	+ 3.8%
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(The above annual turnover figures include book sales to 2005/06.)

Direct Orders

Direct Order trading figures are significantly influenced by the replacement cycle of large vehicles. Although the total spend on vehicles has largely remained the same as last year, the purchases within member authorities reduced from over £14 million to £5.5 million, whereas vehicle purchases for non-member customers rose from £12 million to £20.5 million. This is particularly encouraging as the reduction in member authority purchases is a reflection of the replacement cycle; sales to non-member authorities represent growth which confirms that our vehicle supply contracts are extremely competitive.

Year on year comparisons on vehicle purchases are as follows:-

Cambridgeshire	- 2005/06 - £350K	2006/07 - £700K
Leicester City	- 2005/06 - £5.9 million	2006/07 - £464K
Leicestershire	- 2005/06 - £2 million	2006/07 - £431K
Norfolk	- 2005/06 - £4.2 million	2006/07 - £2 million
Warwickshire	- 2005/06 - £1.7 million	2006/07 - £2 million
Other Customers	- 2005/06 - £12 million	2006/07 - £20.5 million

Period Contracts

A broad analysis of the growth of 15.53% in Period Contracts is as follows:

Cambridgeshire + £4 million	- School book supply	+£150K
	- Waste collection	+ £150K
	- Temporary staffing	+ £500K
	- Electricity	+ £2.06 million
	- PC Hardware	+ £400K
Leicester City + £5 million	- School book supply	+ £75K
	- Taxi services	+ £3.2 million
	- Bailiff services	+ £150K
	- Gas	+ £2.2 million
Lincolnshire + £5 million	- School book supply	+ £125K
	- Waste collection	+ £150K
	- Electricity	+ £2 million
	- Heating oil	+ £600K
	- PCs	+ £400K
	- Telephones	+ £247K
Norfolk + £14.5 million	- School book supply	+ £150K
	- Taxis	+ £8 million
	- Electricity	+ £3 million
	- Plant hire	+ £1.5 million
	- PCs	+ £600K
Peterborough City + £1.05 million	- School book supply	+ £50K
	- Gas and electricity	+ £1 million
Warwickshire + £4 million	- School book supply	+ £100K
	- Waste collection	+ £80K
	- Electricity and oil	+ £1.9 million
	- PCs	+ £1.8 million
Cambridgeshire Districts + £1 million	- Electricity and oil	+ £650K
	- Wheeled bins	+ £500K
Leicestershire Districts + £1.5 million	- Temporary staffing	+ £45K
	- Waste collection	+ £15K
	- Electricity and coal	+ £123K
	- Mobile phones	+ £100K
	- Wheeled bins	+ £1.1 million

Strategic/Consultancy

The total value of Strategic Contracts shows a considerable reduction of nearly 46%. However, as stated previously, this is entirely due to the influence of one contract included in the previous year. Excluding this single contract, the increase in Strategic Contracts exceeds 163%, which is a more accurate reflection of the growth in this area of our activity.

Cambridgeshire County Council

An increase from £1.4 million to £7.2 million this year, which is attributable to work we undertook to shortlist potential contractors for the building of the Longsands College extension with a value of £4.85 million. Additionally this year there was an integrated community equipment service contract with a value of £1.8 million.

Leicester City

The reduction from £3.07 million to £852K this year is down to one single regeneration budget project for Leicester City in the Humberstone and Belgrave area last year, with a value of £3 million.

Lincolnshire County Council

The reduction from £4.87 million to £442K is due to the 2005/06 figures including the value in a large scale SME Broadband infrastructure project to support the regional e-business development at a cost of £3.5 million.

Peterborough City

The increase from £710,000 to £1.2 million is solely attributable to one contract for community equipment services at a value of £1.2 million.

Lincolnshire Districts

An upturn from £0 to £36.7 million for this year attributable to three contracts awarded for North Lincolnshire Council to support their “decent homes” initiative, phase 1 of which covered major contract works at a value of £30 million and phase 2 of which covered asbestos removal, roofing and minor works at a value of £1.2 million. In addition a separate contract for the supply and installation of replacement windows was awarded with a value of £5.5 million.

Norfolk Districts

The reduction from £820K to £150K is a consequence of a contract awarded in 2005/06 for public relations market research, with a value of £500K and a print framework agreement with a value of £250K, both of which were for Norwich City Council.

Others

The large reduction from £86.7 million to £2.1 million is wholly attributable to one large-scale housing maintenance procurement exercise with an annual value of £80 million undertaken for the London Borough of Haringey.

Annual Expenditure per 1000 Head of Population

The chart below shows the annual expenditure per 1000 head of population for our seven member authorities for the year.

Member Authority	Population	Central Stores		Direct Orders		Period Contracts		Strategic	
		2005-06 £	2006-07 £	2005-06 £	2006-07 £	2005-06 £	2006-07 £	2005-06 £	2006-07 £
Cambridgeshire	552,655	3,990	4,071	2,727	3,673	46,338	53,602	2,569	13,175
Leicester City	279,923	7,488	7,895	26,375	6,813	131,450	149,302	10,967	3,044
Leicestershire	609,579	4,539	4,473	5,727	3,099	89,024	89,445	3,707	8,330
Lincolnshire	646,646	4,463	4,586	2,040	2,127	21,324	29,336	7,531	684
Norfolk	796,733	4,736	4,624	7,024	4,423	46,226	64,454	50	50
Peterborough	156,060	5,761	5,363	2,992	2,723	45,758	54,540	4,550	7,690
Warwickshire	505,885	4,361	4,430	5,304	5,910	28,068	35,854	158	24

(Population based on 2001 Census)

Central Stores Prices

We have continued the trend of reducing or at the very least holding prices below inflation since 1996/97 largely as a consequence of increased sales leading to the organisation achieving lower buying prices.

The chart below details the pattern of year on year stores price movements:

1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
0%	-1.40%	-4.50%	-1.50%	-0.10%	2.15%	-2.02%	-1.23%	-0.35%	0.95%	1.66%
					0.23%*					

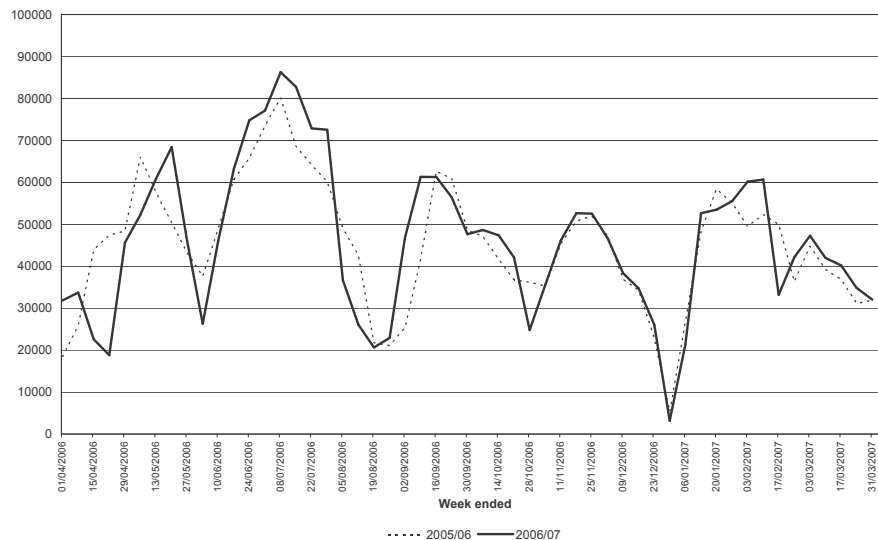
* excluding paper

Service Levels to Customers (Stock Availability)



Having revised upward our target for stock availability to 98% five years ago, we have consistently achieved this level of availability as shown in the chart above, other than on one occasion, namely the traditional trough during schools' summer closure due to the high order input level prior to the holiday period. This trough therefore has minimal effect on the schools (see order input chart following.) However this year the trough is not as deep or as long.

The graph below denotes the stores order input figure for 2006/07, which indicates the peaks and troughs are becoming more extreme, which makes staff resource planning more problematic.



CHALLENGES DURING THE YEAR

Last year I detailed in advance the top half dozen challenges facing the Organisation for the year 2006/07, which I have reproduced below with comments on how these challenges were addressed.

1. **GERSHON REVIEW** (*Continue to assist our member authorities in securing their procurement efficiency targets.*)

The Gershon efficiency targets of 2.5% per annum savings via procurement in 2007/08, 2008/09 and 2009/10 have been superseded by the Comprehensive Spending Review 2007 of 3%. This is ongoing with each member authority tailored to their own agenda, as reflected in the Strategic Business Plan.

2. **COLLABORATIVE PROCUREMENT** (*Build on the collaborative arrangements with the three Regional Centres of Excellence in the Consortium area, other purchasing consortia and the Department for Education and Skills Centre for Procurement Performance [DFES CPP].*)

Collaborative procurement with other consortia, particularly CBC, continues, as does liaison with the Regional Centres of Excellence. With regard to the DFES CPP, this is subject to a separate report to the Management Committee.

3. **INTERNAL EFFICIENCIES** (*Ensure that we meet the internal efficiencies projected to support our move to new premises.*)

The most significant measure taken in this regard was the cessation of our night-shift (10 p.m. to 6 p.m.). The stores now operate a two-shift system only (6 a.m. to 2 p.m. and 2 p.m. to 10 p.m.)

4. **STRATEGIC BUSINESS PLAN** (*Meet the objectives contained within the Strategic Business Plan.*)

This was subject to a separate status report presented to the Management Committee in March 2007.

5. **INVESTORS IN PEOPLE (IIP)** (*Implement the recommendations made by the IIP Assessor following a recent audit to ensure our continued accreditation.*)

It emerged during our interim assessment that the more focussed priorities of the Organisation, primarily stores efficiencies, were in conflict with the criteria applicable to continuing to secure IIP accreditation that required consistency across the entire organisation.

Devoting more resources (costs) to achieve better consistency was not an option, particularly given some concerns expressed at the March Management Committee meeting regarding our training budget, and it was decided to defer continued accreditation until such time as the more focussed efficiency measures in the stores operation were concluded.

In order to further reduce our training budget, we have cancelled our provisional booking for the Aberglaslyn team building visit scheduled for August 2007.

6. **BUSINESS CONTINUITY** (*Review and update our Business Continuity Plans as recently recommended by our Auditors.*)

The draft structure of our business continuity plan was presented to the Management Committee in March 2007. A full report will be produced for the October 2007 meeting.

MARKETING ACTIVITIES

The field based staff provide support to all areas of our customer base, making in excess of 6,000 customer visits making customers aware of the various services offered by ESPO.

It is worthy of note that the field based staff working in membership areas continue to spend an increasing proportion of their time supporting the various departments of the councils in procurement related issues, enquiries and specifically electronic ordering where councils are ready to use this option.

Nationally there are a significant number of initiatives relating to procurement and inevitably these result in seminars, workshops, specific events, etc, and ESPO has supported a number of these including the Beacon Authorities Road Show event in Coventry. We continue to support the corporate procurement units in our member authorities, including supplier participation where appropriate and relevant.

Exhibitions and Displays

The national collaborative agenda naturally leads to joint initiatives with other procurement organisations and consortia. We continue to support member authority exhibitions and events, and in addition attend other events in non-member areas which fit with our marketing activity. Examples of both include:

- Headteachers' Conference (Leicestershire and Cambridgeshire)
- Norfolk Physical Education Conference
- Warwickshire Maths Conference
- Leicester City Local Supplier Workshop
- EXPO Ed (Cambridgeshire County Council)
- Staffordshire County Council Suppliers' Event
- Solihull Schools Seminar
- Coventry City Schools' Workshop

plus a number of other often smaller displays which support local seminars and workshops.

We also continue to attend the Education Show at the NEC Birmingham, where we exhibit and promote our Building Schools for the Future/PFI expertise.

Specific Marketing Campaign

Further to previous market testing (in 2005/06) in Gwent, South Wales, we have continued to market ESPO in this region with considerable success. Our work in the area involves discussions with the local councils in the Gwent region and business is developing into the council departments as well as schools in the region.

In Warwickshire, the Measured Term Contractors (MTCs) appointed by Warwickshire County Council can now use the contractual arrangements negotiated by ESPO when they are working on behalf of the County Council only. This is a new venture for Warwickshire and at the time of writing the joint initiative was only just under way. However, it is worthy of reporting, given the nature of this joint working. I am also pleased to report that the Resources Department of Warwickshire County Council have worked in close partnership with my own staff to make this particular project successful.

Environmental/Sustainable Procurement

In the late autumn of 2006, we embarked on a procurement exercise that is unique in the local authority sector. Working with Global to Local we have engaged with various emerging markets, utilising an EU compliant procurement process, to establish a range of sustainable products and services which include:

Microgeneration

- (i) Biomass Boilers
- (ii) Solar Thermal Heating Systems
- (iii) Photovoltaic Cells
- (iv) Heat Pumps
- (v) Wind Turbines
- (vi) CHP Units

Products for Sustainable Parks Management

- (i) Bio Control Products
- (ii) Sustainable Grounds Maintenance (eliminating chemicals)
- (iii) Sustainable Building Cleaning
- (iv) Machinery used for the Recycling of Green Waste
- (v) Horticultural Products

Energy Efficient Products

- (i) Rooflights/Sunpipes
- (ii) Insulation Materials (Recycled or Renewable)
- (iii) Windows (casements)
- (iv) Energy Efficient Lamps
- (v) Energy Monitoring and Efficiency Devices
- (vi) Water Saving Devices

Products made from Recycled Materials

- (i) Outdoor Street Furniture
- (ii) IT Consumables (Inkjet/Toner Cartridges)

Some of the initial results of the procurement exercise were on show at the Sustainable Development Conference held at Aston Management Centre on 10th and 11th May.

The intended outcome is to produce a Sustainable Products catalogue which should be ready for publication in late Summer 2007.

STAFFING

Staffing levels increased from 320.6 to 330.8 full time posts. The main areas where staff have increased in numbers are Selectors (4), Trainee Buyer (1), Buyer (1), Field Sales (1), Finance Clerk (1), Driver (1). Other changes reflect movements across sections and part time staff appointments.

ANALYSIS OF MANPOWER

	2005/06		2006/07	
DIRECTOR	1.0		1.0	
SECRETARIES	<u>2.0</u>	3.0	<u>2.0</u>	3.0
STRATEGIC DIVISION				
DIVISION HEAD	1.0		1.0	
BUYERS	25.0		25.0	
TRAINEE BUYERS	1.0		2.0	
CONTRACTS ADMIN OFFICER	1.0		1.0	
ADMIN & CLERICAL *	<u>15.6</u>	43.6	<u>15.3</u>	44.3
COMMODITY DIVISION				
DIVISION HEAD	1.0		1.0	
SALES/MAJOR ACCTS MGR	1.0		1.0	
BUYERS	15.0		16.5	
TRAINEE BUYERS	3.0		3.0	
EXPEDITING/DIRECT DELIVERIES	7.6		9.6	
FIELD SALES EXECUTIVES	5.6		7.7	
CATALOGUE PRODUCTION	8.0		7.0	
CLERICAL *	6.5		6.0	
CUSTOMER SERVICES *	<u>19.2</u>	66.9	<u>19.7</u>	71.5
FINANCE DIVISION				
DIVISION HEAD	<u>1.0</u>	1.0	<u>1.0</u>	1.0
ACCOUNTS/ADMIN				
FINANCE TECHNICIAN	1.0		1.0	
FINANCE TRAINEE	1.0		1.0	
CLERICAL ASSISTANTS	<u>19.0</u>	21.0	<u>20.0</u>	22.0
IT SECTION				
MANAGER	1.0		1.0	
DEPUTY MANAGER	1.0		1.0	
TECHNICAL SPECIALISTS/ANALYSTS	2.0		2.0	
HELPDESK/OPERATIONS SUPPORT	<u>2.0</u>	6.0	<u>2.0</u>	6.0
OPERATIONS DIVISION				
DIVISION HEAD	1.0		1.0	
PERSONNEL & TRAINING	2.0		2.0	
POST/RECEPTION	<u>1.7</u>	4.7	<u>1.7</u>	4.7
WAREHOUSE AND DISTRIBUTION				
SUPERVISORY	4.0		4.0	
SECTION LEADERS	7.0		6.0	
DELIVERY DRIVERS ++	34.0		35.0	
SELECTORS INCLUDING DATA ENTRY ++ *	74.0		78.0	
FORKTRUCK DRIVERS AND GOODS IN ++	24.0		24.0	
GOODS OUT	11.0		11.0	
HOUSEKEEPERS *	<u>9.7</u>	163.7	<u>7.6</u>	165.6
WAREHOUSE SUPPORT				
SUPERVISORY	1.0		1.0	
TRAINING, QUAL CONTROL, STOCK AUDIT, and MAINTENANCE	5.0		7.0	
TRANSPORT PLANNING*	<u>4.7</u>	10.7	<u>4.7</u>	12.7
* Inc part-time staff expressed as full time equivalents				
++ Based on range of May & Nov figures				
Exclude short term temporary/agency staff				
		<u>320.6</u>		<u>330.8</u>

ESPO STATEMENT OF ACCOUNTS 2006/07

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 31st March 2007 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 2006/2007

I am pleased to report that this year has seen continued growth in almost all aspects of our business. The use of our products and services by our member authorities and other customers, as measured by the value of their combined procurement activities, amounted to £397million. The result of continued growth is reflected within the statutory accounts through an increase in gross sales income of 8.3% to achieve a total for the year of £67.9million. Our net income, after charging direct costs, has increased by 5.0% to a total value for the year of £13.7million. This was a slightly reduced margin percentage in line with our policy of providing customers with highly competitive prices.

This growth in business was achieved in a year that challenged our customers with constraints on spending as local authorities strived to meet tighter targets and to achieve demonstrable efficiency savings. This organisation continues to work closely with member authorities on regional procurement initiatives and on E-Government targets which are driving increased use of ESPO contracts (15.5% growth over 2005/6).

This was the first full year of operation from our new purpose-build premises at Grove Park, Enderby and our expenditure reflected some remaining fitting out costs. The increased capacity provided by the new facilities has enabled us to continue to extend our area of operations and increase the range of products on offer.

The net surplus on the Income and Expenditure Account for this year was £0.38million (restated result for 2005/06 was a deficit of £1.03million). This represents a small percentage of the total value of turnover which is fully in accord with the policy of passing the benefits of the consortium to customers.

A more detailed review of our performance is contained within the ESPO Annual Report for 2006/07 which is prefixed to the Statement of Accounts.

Future Prospects

ESPO continues to support member authorities and Regional Centres of Excellence on regional procurement initiatives and on meeting Government targets. This continues to drive increased use of ESPO strategic services and the development of corporate procurement policies by member authorities and districts is driving increased use of ESPO contracts. Continued development of our stock and direct delivery product ranges and of cost-efficient E-procurement facilities supports further growth in general catalogue sales. I will continue to strengthen our resources and facilities in support of further growth in demand for our services.

ESPO's Accounts

The format of the ESPO accounts has changed significantly this year in line with the Code of Practice for Local Authority Accounting for 2006/07. The most noticeable change is the introduction of a GAAP compliant Income and Expenditure Account which replaces the Consolidated Revenue Account and the addition of two new financial statements that reconcile the results to the change in Net Worth and to the movement in General Fund Balance. The accounts for 2005/06 have been restated in the new format and a reconciliation is included in the notes with the previously published Net Surplus.

The following accounting statements represent the Eastern Shires Purchasing Organisation's accounts for the 2006/07 financial year.

Income and Expenditure Account

This statement is fundamental to the understanding of the consortium's activities, in that it summarises trading income and expenditure for the twelve months ending 31st March 2007 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 management reporting and 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 sets out ESPO's financial position as at 31st March 2007. It incorporates all the Consortium funds.

Statement of Movement on the General Fund Balance

This statement is new for 2006/07 and reconciles the net surplus or deficit on the Income and Expenditure Account to the movement in the General Fund balance. In previous years' Statements of Accounts the General Fund was identified as "Operating Reserves".

Statement of Total Recognised Gains and Losses

This statement is also new for 2006/07 and recognises the consortium's gains and loss arising from asset and liability valuation rather than from the organisation's operating performance, which is summarised in the Income and Expenditure Account. The resulting combined gains and losses reflect the total movement in the consortium's net worth for the year.

Cash Flow Statement

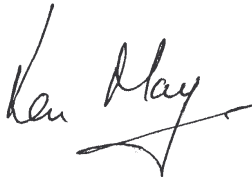
This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Authorisation of Accounts:

The Statement of Accounts presents fairly the financial position of the authority at 31st March 2007 and its income and expenditure for the year ended 31st March 2007.

Date of Authorisation:

The accounts were authorised for issue 12th June 2007 by K G May. This was the last date when events after the balance sheet date have been considered.



K G May
Director of ESPO

Date: 12th June 2007



B. Roberts
Consortium Treasurer

Date: 19th June 2007

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Statement of Accounts summarises ESPO's transactions for the 2006/07 financial year and its position at the year end of 31st March 2007. It has been prepared in accordance with SORP, the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice and the guidance notes issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the application of accounting standards (SSAPs and FRSs). These accounts are maintained on an historical cost basis, modified by the revaluation of certain categories of tangible fixed assets. Where full compliance has not been achieved, this is referred to in the notes to the accounts.

2. 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:

- Fees and charges due from customers are accounted for as income at the date ESPO provides the relevant goods and services. This excludes turnover rebates and energy billing which are maintained on a receipts basis.
- Supplies are recorded as expenditure when they are consumed. Supplies received pending consumption are carried as stocks on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates.
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. The balance of debtors is written down for doubtful debts 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.

3. RESERVES

ESPO sets aside specific amounts as reserves for future policy purposes or to cover contingencies. The reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. Expenditure financed from reserves is charged to the appropriate service revenue account in that year and then appropriated back into the General Fund Balance statement

(i) Revenue

An explanation of the purpose of various revenue reserves held by ESPO and details of the movements in each of these reserves are contained in the Notes to the Balance Sheet (Notes 8 & 9) on pages 33 to 34 of this report.

(ii) Non-Cash Backed Reserves

In accordance with standard accounting practice for local authorities, two capital reserves have been established as part of the system for capital accounting that do not represent usable resources to the organisation – these reserves are explained in the note to the Statement of Total Movement in Reserves.

4. FIXED ASSETS

(i) Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by ESPO is capitalised when the benefits to the organisation exceed one financial year.

(ii) Tangible fixed Assets

Tangible fixed assets are assets which have a physical presence and are held for use in the provision of services or for administrative purposes. Expenditure on their acquisition and/or improvement is capitalised provided that the asset yields a benefit to ESPO for a period of more than one year. However, some relatively minor items may be financed from revenue. The asset values include buildings, commercial vehicles and equipment for which ESPO has beneficial ownership.

(iii) Asset Valuation

Fixed assets are valued on the basis required by the SORP and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS).

The basis of valuation is as follows:

- Intangible assets are carried at current value, which in all material respects is approximated by depreciated historical cost for all assets with an original licence cost in excess of £5,000.
- Buildings are included in the balance sheet at open market value for existing use. Valuation is carried out such that all assets are revalued once every five years. Various Chartered Surveyors in the Property Services Division of Leicestershire County Council's Resources Department carry out the valuation. The current asset values used in the accounts are based on a certificate issued by the Council's Head of Property Services Division as at 1st April 2006. Changes in valuation are matched by a corresponding adjustment to the fixed Asset Restatement Account to recognised unrealised gains or losses.

Any additions since that date are either included in the accounts at their cost of acquisition or written off to the fixed asset restatement reserve if the actual expenditure does not increase the asset valuation.

- Vehicles, plant, furniture and equipment are carried at current value, which in all material respects is approximated by depreciated historical cost for all assets with an original cost in excess of £5,000.
- Surplus assets are valued at the lower of net current replacement cost or net realisable value.

(iv) Capital charges

Charges for depreciation are made to all activities in the income and expenditure account, which utilise assets in the delivery of ESPO services. This is calculated using the straight-line method applied to the various asset classes as follows:

- Intangibles – Estimated useful life, usually 5 years.

- Buildings are depreciated over their remaining useful economic lives as assessed by the property valuer, normally 50 years or the remaining useful life of the asset (which is reviewed at the same time as the revaluation is completed). No allowance is made for a residual value.
- Vehicles, plant and equipment – estimated useful life, varying between four to eight years.

In accordance with the introduction of FRS15, depreciation has been applied to all assets.

4. PENSION ASSETS AND LIABILITIES

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 2006/07 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.

5. STOCKS

Stocks are valued in the Balance Sheet at average cost price, with allowances for obsolescent or slow moving stocks where material. This is in accordance with SSAP 9, which requires stock to be valued at the lower of cost or net realisable value.

6. VAT

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.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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 Resources of Leicestershire County Council;

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 22nd June 2007.



A Melton
Chairman, ESPO Management Committee

Date: 31st July 2007

The Consortium Treasurer's Responsibilities

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

In preparing this Statement of Accounts for the year ended 31st March 2007, 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.

STATEMENT ON INTERNAL CONTROL

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 also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of ESPO's functions and which includes arrangements for the management of risk.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it 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 the 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 system of internal control has been in place at ESPO for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

THE INTERNAL CONTROL ENVIRONMENT

The key elements of Eastern Shires Purchasing Organisation's (ESPO) internal control environment are as follows:

- ESPO is a local authority joint committee and has adopted a constitution and Code of Practice which set out how the consortium operates, 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 elected councillors from each of the seven member authorities. Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, the Director of ESPO can make decisions under delegated authority.
- Through reviews by external auditors, external agencies and internal auditors from Leicestershire County Council (the consortium servicing authority), 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.
- Services are delivered by trained, experienced and, when required, qualified people. All posts have a detailed job description and personal specification. Training needs are identified through regular Personal Development Reviews. All staff are employed by Leicestershire County Council on a rechargeable basis under ESPO local conditions of service.
- The consortium has designated the Leicestershire County Council County Solicitor as Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.

- Leicestershire County Council acts as the servicing authority to ESPO and in this role provides appropriate professional support including finance, personnel and legal. The financial management of the consortium is conducted in accordance with the financial regulations of Leicestershire County Council.
- Leicestershire County Council, the consortium servicing authority, maintains an Internal Audit Section which operates to standards set out in the ‘Code of Practice for Internal Audit in Local Government in the UK’. The consortium has an objective and professional relationship with external auditors and statutory inspectors.
- The consortium has an effective performance management framework which is driven by the annual review of Strategic and Business Objectives that focuses attention on corporate priorities. This is cascaded through divisional objectives, individual employee reviews and efficiency improvement projects. Performance is clearly set out and measured in the annual cycle of service reviews and reports, in the financial planning and budgeting cycle and in bi-annual customer surveys. The Management Committee and Sub-Committees monitor and scrutinise progress against targets and performance in key service 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 the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors within the authority who in performing their statutory roles have responsibility for the development and maintenance of the internal control environment. The review process is also routinely informed by the work of the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

- ESPO Management Committee consisting of three elected councillors from each member authority who meet three times each year. The Committee reviews consortium corporate governance arrangements on a needs basis. No formal Risk or Performance Management policies have been agreed.
- Leicestershire County Council (LCC) Internal Audit is responsible for monitoring the quality and effectiveness of ESPO systems of internal control. A four year audit plan is agreed with the Director of ESPO from which the annual workload is identified. The Internal Audit reporting process requires a report of each audit to be submitted to the relevant Divisional Manager and Director. The report includes recommendations for improvements that 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.
- The work of LCC Internal Audit Section is subject to review by the Council’s (LCC) external auditors to the extent necessary to place reliance on the work carried out by the section.
- Each year the Director and Management Committee review the strategic and business objectives to ensure their continued relevance to the consortium. The Director’s Annual Report and periodic Progress Reports also assess performance against these aims and objectives. Requests for Members’ approval of key development projects include a comprehensive risk assessment within the business case.
- A Senior Officer Group consisting of senior managers from each member authority meet regularly to review progress on key improvement and development projects and for a corporate review of service performance in meeting the needs of member authorities.

- 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 and to consider progress on key development projects. When necessary, the SMT determines, agrees and instigates immediate corrective action where performance is below target.

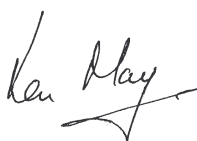
SIGNIFICANT INTERNAL CONTROL ISSUES

The following internal control issues have been identified:

No.	Issue	Action
1	A comprehensive range of performance management indicators are regularly presented to the ESPO Management Committee, however there is a need to review whether these continue to meet the requirements of Elected Members in terms of a performance management policy.	<p>A high-level strategic business plan was drafted during 2005/06 in conjunction with Deloitte MCS Ltd to reflect the needs of Members. This was approved in 2006/07 by the Senior Officer Group under delegated powers from ESPO Management Committee.</p> <p>In March 2007 the Management Committee approved a progress report on an eight point action plan contained within the strategic business plan. The keys developments reported included:</p> <ul style="list-style-type: none"> • A marketing plan on strategies for ESPO to meet the service and quality expectations of member authorities. • Revised five-year financial projections. • A risk management policy statement together with associated guidance notes and procedures.
2	The organisation has IT risk policies and procedures, however there is a need to ensure it has approved policies and procedures to identify and manage all business risks through the adoption of a formal corporate risk management strategy and policy statement which is approved by the Management Committee and is reviewed annually to identify changes in the organisation's risk exposure.	<p>As stated above, the Management Committee approved a corporate risk management policy in March 2007.</p> <p>In 2007/08 a comprehensive review of business risks will be undertaken and the results presented to the Management Committee for approval in March 2008.</p>

Note the requirement to review the consortium's constitution and corporate governance arrangements, that was included in the 2005/06 Statement of Internal Control is no longer identified as requiring action.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, and a plan to address weaknesses and ensure continuous improvement of the system is in place.



K G May
Director of ESPO



A Melton
Chairman, ESPO Management Committee

Date: 12th June 2007

Date: 31st July 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EASTERN SHIRES PURCHASING ORGANISATION

We have audited the financial statements of Eastern Shires Purchasing Organisation for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

This report, including the opinion, has been prepared for and only for Eastern Shires Purchasing Organisation's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Joint Committee and its income and expenditure for the year.

We review whether the Statement on Internal Control reflects the Joint Committee's compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Joint Committee's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory foreword, Statement of Responsibilities for the Statement of Accounts and Statement of Accounting Principles. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

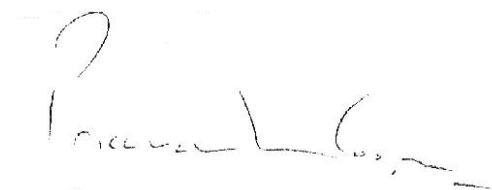
Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Joint Committee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Joint Committee's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of Eastern Shires Purchasing Organisation as at 31 March 2007 and its income and expenditure and cash flows for the year then ended.



PricewaterhouseCoopers LLP
Birmingham
Date 28th September 2007

- Notes:
- a) The maintenance and integrity of the Eastern Shires Purchasing Organisation website is the responsibility of the Joint Committee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
 - b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONCLUSION ON ARRANGEMENTS FOR SECURING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES

Joint Committee's Responsibilities

The Joint Committee is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

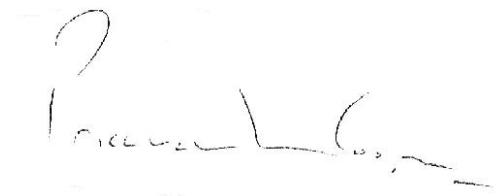
We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Joint Committee for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. We report if significant matters have come to our attention which prevent us from concluding that the Joint Committee has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Joint Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Qualified Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for other local government bodies specified by the Audit Commission and published in December 2006, in all significant respects, Eastern Shires Purchasing Organisation made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007 except that it did not put in place arrangements to manage its significant business risks.

Certificate

We certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



PricewaterhouseCoopers LLP

Birmingham

Date 28th September 2007

EASTERN SHIRES PURCHASING ORGANISATION
INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31ST MARCH 2007

2005-06	<u>Note</u>	2006-07		
£'000		£'000		
<u>PRIOR YEAR</u>		<u>INCOME</u>	<u>EXPENDITURE</u>	<u>NET</u>
<u>NET</u>		<u>GROSS</u>	<u>GROSS</u>	<u>NET</u>
<u>£'000</u>		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>SERVICE INCOME:</u>				
(7,273)	Central Stores	(28,926)	21,489	(7,437)
(5,749)	Central Purchasing	(38,971)	32,733	(6,238)
<u>(13,022)</u>	<u>TOTAL</u>	<u>(67,897)</u>	<u>54,222</u>	<u>(13,675)</u>
<u>SERVICE EXPENDITURE:</u>				
8,576	Employees	[2,3]		8,267
503	Other Employee Expenses			167
912	Premises			565
1,184	Transport			1,293
1,044	Equipment	[1]		1,079
361	Office Expenses			311
789	Other Expenses			837
79	Support Service Charges			81
<u>13,448</u>	<u>TOTAL</u>			<u>12,600</u>
<u>426</u>	<u>NET COST OF SERVICES</u>			<u>(1,075)</u>
<u>CORPORATE INCOME AND EXPENDITURE:</u>				
0	Gain or loss on disposal of fixed assets			0
(253)	Interest and Investment Income			(47)
487	Interest Payable and Similar Charges			546
368	Dividends to Member Authorities			201
<u>1,028</u>	<u>(SURPLUS) / DEFICIT FOR YEAR</u>			<u>(375)</u>

EASTERN SHIRES PURCHASING ORGANISATION

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR YEAR ENDED 31ST MARCH 2007

<u>2005-06</u>		<u>Note</u>	<u>2006-07</u>
£'000			£'000
1,028	(Surplus)/deficit for the year on the Income & Expenditure Account		(375)
(462)	Net amount required by Statute and non-statutory proper practice to be debited or credited to the General Fund Balance for the year.	(8)	463
<u>566</u>	Decrease in the General Fund Balance for the year		<u>88</u>
(1,794)	General Fund Balance brought forward		(1,228)
<u>(1,228)</u>	<u>General Fund Balance carried forward</u>		<u>(1,140)</u>

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR YEAR ENDED 31ST MARCH 2007

<u>2005-06</u>		<u>Note</u>	<u>2006-07</u>
£'000			£'000
1,028	(Surplus)/deficit for the year on the Income & Expenditure Account		(375)
0	(Surplus)/Deficit arising on revaluation of fixed assets		152
<u>1,028</u>	<u>Total recognised (Gains)/Losses for the year</u>		<u>(223)</u>
(5,301)	Opening Net Worth value at 1 st April 2006		(4,273)
<u>(4,273)</u>	<u>Closing Net Worth value at 31st March 2007</u>		<u>(4,496)</u>

BALANCE SHEET AS AT 31ST MARCH 2007

2005-06			Notes	2006-07	
£'000	£'000			£'000	£'000
		FIXED ASSETS:			
75		Net Intangible Fixed Assets	[9,10]	71	
		Net Tangible Fixed Assets:	[9,10]		
12,828		- Land Buildings		12,344	
<u>1,111</u>	<u>14,014</u>	- Vehicles, Plant, Furniture & Equipment		<u>1,201</u>	<u>13,616</u>
		CURRENT ASSETS:			
3,623		Stocks		3,763	
7,290		Debtors	[11,15]	6,090	
0		Cash and Bank		1	
<u>3,884</u>		Short Term Investments	[12]	<u>3,049</u>	
	14,797				12,903
		CURRENT LIABILITIES:			
500		Borrowings repayable on demand or within 12 months		500	
10,737		Creditors		7,703	
456		Other Current Liabilities (<i>Incl dividend payable to member authorities</i>)		832	
<u>845</u>		Bank Overdraft		<u>1,488</u>	
	12,538				10,523
	<u>2,259</u>	NET CURRENT ASSETS			<u>2,380</u>
		LONG TERM LIABILITIES			
	12,000	Long Term Creditor	[14]		11,500
	<u>4,273</u>	NET ASSETS			<u>4,496</u>
		<u>REPRESENTED BY:</u>			
		<u>NON-CASH BACKED RESERVES</u>			
391		Fixed Asset Restatement Account		239	
<u>1,144</u>		Capital Financing Account		<u>1,667</u>	
	1,535				1,906
		RESERVES	[16,17]		
1,228		General Fund (previously "Operating Reserves")		1,140	
72		Earmarked Reserves:		16	
1,349		Vehicle Equipment Renewals Reserve		1,323	
<u>89</u>		Stores Maintenance Reserve		<u>111</u>	
	2,738				2,590
	<u>4,273</u>	TOTAL NET WORTH			<u>4,496</u>

EASTERN SHIRES PURCHASING ORGANISATION

CASH FLOW STATEMENT

	Notes	<u>2005-06</u>		<u>2006-07</u>	
		£'000	£'000	£'000	£'000
REVENUE ACTIVITIES :					
Cash Outflows -					
Cash Paid to & on behalf of Employees		8,594		8,466	
Cash Paid for Goods & Services		45,985		55,915	
Other Operating Cash Payments		4,443		3,773	
Cash Inflows -					
Cash Received for Goods & Services		<u>(60,838)</u>		<u>(68,225)</u>	
Revenue Activities Cash Flow	(18)		(1,816)		(71)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE :					
Cash Outflows -					
Dividends paid		658		368	
Interest paid		487		546	
Cash Inflows -					
Interest Received		<u>(314)</u>		<u>(47)</u>	
			831		867
CAPITAL ACTIVITIES :					
Cash Outflows -					
Purchase of Fixed Assets		12,855		449	
Cash Inflows -					
Sale of Fixed Assets		<u>(7)</u>		<u>(268)</u>	
			<u>12,848</u>		<u>181</u>
NET CASH INFLOW / OUTFLOW BEFORE FINANCING :			11,863		977
MANAGEMENT OF LIQUID RESOURCES :					
Net Increase /(Decrease) in Short Term Investments			1,170		(835)
FINANCING :					
Cash Outflows -					
Repayment of amounts borrowed		<u>0</u>		<u>500</u>	
Cash Inflows -					
New loans raised	(19)	(12,000)		0	500
New short-term loans		<u>(500)</u>		<u>0</u>	
			(12,500)		0
(INCREASE)/DECREASE IN CASH :	(20)		<u>533</u>		<u>642</u>

NOTES TO THE STATEMENT OF ACCOUNTS

1. LEASING

Lease rentals paid to lessors during the year in respect of operating leases for vehicles and computer equipment totalled £161,432 (2005/06 - £141,000).

As at 31st March 2007, ESPO has a commitment to meet the following rentals in 2007-08:

<u>Operating Leases which expire:</u>	<u>£'000</u>
Within 1 year	25
2 to 5 years	90
Over 5 years	-
Total	<u>115</u>

2. 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 2006/07 ESPO paid an employer's contribution of £765,058 into the Pension Fund, representing 13.8% of pensionable pay. This rate of contribution was based upon the actuarial review as at March 2004 and resulted in a requirement for the common contribution rate of employer's contributions to increase from 210% to 250% of an employee's contribution. This increase is being phased in over a period up to four years commencing in 2005/06 and to be completed in 2008/09.

In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2006/07 these amounted to £9,831 representing 0.15% of pensionable pay.

3. OFFICERS' REMUNERATION

The number of officers whose emoluments, excluding pension contributions, were within the following bands is shown in the table below.

£	<u>2005/06</u>	<u>2006/07</u>
50,001 - 60,000	4	1
60,001 - 70,000	-	3
70,001 - 80,000	-	-
80,001 - 90,000	-	-
90,001 - 100,000	-	-
100,001 - 110,000	1	1

4. TRANSACTIONS WITH RELATED PARTIES

Transactions between ESPO and other local authorities, including consortium member authorities, account for approximately 77% of invoiced turnover. These are made under the Local Authority (Goods and Services) Act 1970 and are included in the Consolidated Revenue Account.

During the year, none of the ESPO elected members or key management staff or parties related to them has undertaken any material transaction with ESPO.

In addition to its membership, Leicestershire County Council also acts as the “servicing authority” providing legal, financial, personnel and committee services to ESPO, the cost of which is recharged.

5. DIVISIONAL TRADING INFORMATION

As explained in the Explanatory Forward, ESPO comprises of two operating divisions, namely ‘Stores’ and ‘Central Purchasing’

The net service income for each division is shown in the Income and Expenditure Account. For internal reporting purposes, the annual net surplus is further analysed between each trading activity and the resulting divisional net surpluses are separately apportioned between the amounts retained in the General Fund and the total dividends payable to member authorities.

The amount of dividend payable to each member authority is apportioned in proportion to their use of the “Stores” and “Central Purchasing” divisions.

6. DISCLOSURE OF AUDIT COSTS.

Eastern Shires Purchasing Organisation incurred the following audit fees:

	<u>2005/06</u> <u>£'000</u>	<u>2006/07</u> <u>£'000</u>
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 <i>Code of Audit Practice</i> in accordance with section 5 of the Audit Commission Act 1998.	19	20

7. INCOME AND EXPENDITURE COMPARATIVE FIGURES 2005/06

Statement showing a comparison between the Income and Expenditure Account for 2005/06 with the corresponding Consolidated Revenue Account disclosed in the 2005/06 Statement of Accounts.

	Consolidated Revenue Account in 2005/06 Statement of Accounts	Income & Expenditure previously charged to earmarked funds	Removal of Capital Financing charges	Capital expenditure previously charged to revenue	Re-allocate income & expenses + dividend	Income & Expenditure Account 2005/06 comparative
	£'000	£'000	£'000	£'000	£'000	£'000
<u>TURNOVER</u>						
Sales	<u>62,688</u>					<u>62,688</u>
<u>SERVICE INCOME</u>						
Gross Margin on Stores Sales	(7,273)					(7,273)
Other customer & client receipts	(5,941)	(61)			253	(5,749)
<u>TOTAL INCOME</u>	<u>(13,214)</u>	<u>(61)</u>	<u>0</u>	<u>0</u>	<u>253</u>	<u>(13,022)</u>
<u>SERVICE EXPENDITURE</u>						
Employees	8,576					8,576
Other Employee Expenses	503					503
Premises	924	(12)				912
Transport	1,348	(164)				1,184
Equipment	1,227	(89)	(51)	(43)		1,044
Office Expense	361					361
Other Expenses	1,276				(487)	789
Support Services	79					79
<u>TOTAL EXPENDITURE</u>	<u>14,294</u>	<u>(265)</u>	<u>(51)</u>	<u>(43)</u>	<u>(487)</u>	<u>13,448</u>
<u>NET COST OF SERVICES</u>	<u>1,080</u>	<u>(326)</u>	<u>(51)</u>	<u>(43)</u>	<u>(234)</u>	<u>426</u>
<u>CORPORATE INCOME & EXPENDITURE</u>						
Asset Management Revenue	(51)		51			0
Capital Charges Reversal	(308)	308				0
Interest Credited to Reserves	222	(222)				0
Interest received on Investments					(253)	(253)
Interest paid on borrowings					487	487
Transfers from Reserves	(1,487)	1,487				0
Transfers to Reserves	117	(117)				0
Dividends					368	368
<u>(SURPLUS)/ DEFICIT FOR YEAR</u>	<u>(427)</u>	<u>1,130</u>	<u>0</u>	<u>(43)</u>	<u>368</u>	<u>1,028</u>

8. EXPLANATION OF MOVEMENT ON THE GENERAL FUND BALANCE

The following table is a breakdown of the amount in the statement that is required by statutory and non-statutory practice to be debited and credited to the General Fund:

2005-06			2006-07	
£'000	£'000		£'000	£'000
		Amounts included in the Income and Expenditure Accounts required to be excluded when determining the movement on the General Fund balance for the year:		
(25)		Amortisation of intangible assets	(24)	
<u>(283)</u>		Depreciation and impairment of Fixed Assets	<u>(402)</u>	
	(308)			(426)
		Amounts excluded from the Income and Expenditure Accounts required to be included when determining the movement on the General Fund balance for the year:		
0		Min. Rev. Provision. for capital financing loans	500	
43		Capital expenditure charged in the year to the General Fund	15	
<u>43</u>	43		<u>515</u>	515
		Transfers to or from the General Fund Balance required to be included in determining the General Fund balance for the year:		
(465)		Net transfer to or from Earmarked Reserve	85	
268		Net transfer to or from Repairs & Renewals Reserve and from Maintenance Reserve.	289	
<u>(197)</u>	(197)		<u>374</u>	374
	<u>(462)</u>	<u>Net additional amount required to be (credited)/debited to the General Fund Balance for the year</u>		<u>463</u>

9. MOVEMENT OF FIXED ASSETS DURING THE YEAR

	<u>Intangibles</u> <u>(Purchased</u> <u>Software</u> <u>Licences)</u>	<u>Land &</u> <u>Buildings</u>	<u>Vehicles,</u> <u>Plant &</u> <u>Equipment</u>
	£'000	£'000	£'000
<u>Historical Cost or Valuation:</u>			
Opening value as at 1st April 2006	156	12,912	2,582
Reclassification of assets	-	-	-
Additions	19	-	430
Disposals	-	(250)	(54)
Revaluations	-	(212)	(237)
Closing Value as at 31st March 2007	175	12,450	2,721
<u>Cumulative Depreciation</u>			
Opening value as at 1st April 2006	(80)	(84)	(1,472)
Disposals	-	-	36
Depreciation this year	(24)	(106)	(296)
Revaluations	-	84	212
Closing Value as at 31st March 2007	(104)	(106)	(1,520)
<u>Net Book Value as at 31st March 2007</u>	71	12,344	1,201

10. FINANCING OF CAPITAL EXPENDITURE ON FIXED ASSETS DURING THE YEAR

	<u>Intangibles</u>	<u>Buildings</u>	<u>Vehicles,</u> <u>Plant &</u> <u>Equipment</u>
	£'000	£'000	£'000
Financed from Revenue	-	-	15
Financed from Earmarked Reserves	19	-	122
Financed from Vehicle & Equipment Reserves	-	-	293
Financed from Stores Maintenance Reserves	-	-	-
	19	-	430

11. DEBTORS

	<u>31 March,</u> <u>2006</u> £'000	<u>31 March,</u> <u>2007</u> £'000
Current Debtors		
Reserved Debtors	639	713
Sundry Debtors	6,798	5,529
Less Provision for Bad Debts	(147)	(152)
	<u>7,290</u>	<u>6,090</u>
<u>Analysis of Bad Debts Provision</u>		
Opening Balance as at 1st April 2006	(140)	(147)
P & L Charge for the Year	(10)	(10)
Less Bad Debts Written Off	3	5
Closing Balance as at 31st March 2007	<u>(147)</u>	<u>(152)</u>

12. SHORT TERM INVESTMENTS

Represents the investment of the surplus bank balance in short-term deposits by Leicestershire County Council on behalf of the Consortium.

13. CAPITAL COMMITMENTS

	<u>31st March,</u> <u>2006</u> £'000	<u>31st March,</u> <u>2007</u> £'000
Contracts entered into during the year, where payments remain to be made.	230	212

14. LONG TERM CRDITOR

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 consortium 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 4.75% pa.

	<u>Total Outstanding</u> <u>at 31st March 2006</u> £'000	<u>Total Outstanding</u> <u>at 31st March 2007</u> £'000
<u>Lender</u>		
Leicestershire County Council	12,000	11,500
<u>Analysis of Maturity of this loan:</u>		
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	7,500	7,000

15. BALANCES WITH RELATED PARTIES

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 £3,406,000 as at 31st March 2007 and are included in ‘Sundry Debtors’ as detailed in note 3 to the Balance Sheet.

Amount due to member authorities for services provided to ESPO amounted to £19,000 as at 31st March 2007 and are included within the value of ‘Creditors’ under ‘Current Liabilities’ on the Consolidated Balance Sheet.

16. MOVEMENT IN RESERVES:

(a) Movements in Cash Backed Reserves

2005/ 06		2006/07				
		General Operating Fund	Earmarked	Vehicles & Equipment	Building Maintenance	Total
£000		£000	£000	£000	£000	£000
0	Transfers between Reserves	(138)	138	-	-	-
61	Bank Interest credited	-	2	49	4	55
368	Transfers Reserves to: from Revenue	-	-	240	18	258
(1,251)	Revenue	-	(55)	(22)	-	(77)
(334)	Capital Financing	-	(141)	(293)	-	(434)
58	Add retained Net Surplus for year	50	-	-	-	50
(1,098)	Total Movements in Reserves:	(88)	(56)	(26)	22	(148)
3,836	Balance brought forward at 1 st April	1,228	72	1,349	89	2,738
2,738	Balance carried forward at 31 st March	1,140	16	1,323	111	2,590

Note:

The amounts previously included in the balance sheet as “Members’ Reserve” have been reclassified for 2006/07 as “Other current liabilities” in the balance sheet and the prior year’s comparatives have been restated accordingly. This change recognises that the balance on the account is a distribution of annual surplus payable by ESPO to member authorities.

(b) Movements in Non Cash-backed Reserves:

2005/06 £000		2006/07 £000
	<u>Fixed Asset Restatement Account:</u>	
391	Opening Balance as at 1 st April	391
0	Revaluation adjustment	(152)
0	Disposals	0
391	<u>Closing Balance as at 31st March</u>	239
	<u>Capital Financing Account:</u>	
1,075	Opening Balance as at 1 st April	1,144
43	Capital Financing – Revenue	15
334	- Reserves	434
(308)	Capital Charges Reversal	(426)
	Loan Repayment	500
1,144	<u>Closing Balance as at 31st March</u>	1,667

17. REVENUE RESERVES

ESPO reserves have been established to meet operating deficits and to finance major one-off expenditure and replacement of assets.

(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

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

(iii) VEHICLE/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.

18. RECONCILIATION OF (SURPLUS)/DEFICIT IN THE INCOME AND EXPENDITURE
ACCOUNT TO REVENUE ACTIVITIES CASH FLOW

	<u>2005/06</u>		<u>2006/07</u>	
	£'000	£'000	£'000	£'000
(Surplus)/Deficit for the Year	<u>1,028</u>		<u>(375)</u>	
Non-cash Transactions -		1,028		(375)
Depreciation	<u>(308)</u>		<u>(426)</u>	
		(308)		(426)
Cash Transactions -				
P/L Interest	(173)		(500)	
Gain on Sale of Fixed Asset	<u>7</u>		<u>0</u>	
		(166)		(500)
Items on Accruals Basis -				
Increase/(Decrease) in Stocks	28		140	
Increase/(Decrease) in Debtors	1,893		(950)	
Decrease/(Increase) in Creditors	(4,136)		2,416	
Decrease/ (Increase) in Tax Creditor	174		(214)	
Decrease/ (Increase) in Other Liabilities	<u>(329)</u>		<u>(162)</u>	
		(2,370)		1,230
Net Cash Flow from Revenue Activities		<u>(1,816)</u>		<u>(71)</u>

19. MOVEMENT IN FINANCING ITEMS

	Balance 31st March, 2006 £'000	Balance 31st March, 2007 £'000	Cash Movement In the Year £'000
Analysis in Borrowings:			
Leicestershire County Council:			
Long Term	(12,000)	(11,500)	500
Short Term	(500)	(500)	0
	<u>(12,500)</u>	<u>(12,000)</u>	<u>500</u>

20. MOVEMENT IN CASH

	Balance 31st March, 2006 £'000	Balance 31st March, 2007 £'000	Cash Movement In the Year £'000
Cash in Hand and at Bank	0	1	(1)
Cash Overdrawn	(845)	(1,488)	643
Net Decrease/(Increase) in Cash	<u>(845)</u>	<u>(1,487)</u>	<u>642</u>