

ESPO COMBINED ANNUAL REPORT AND ACCOUNTS 2007/08

CONTENTS:

	<u>PAGE</u>
<u>Annual Report</u>	
Introduction	1
Trading Results	1
Annual Turnover Statistics	1
Stores	3
Central Stores Prices	3
Service Levels to Customer Stock (Availability)	3
Direct Orders	4
Period Contracts	4
Commissioning/Consultancy	5
Annual Expenditure Per 1000 Head of Population	5
Marketing Activities	6
Staffing	7
Analysis of Manpower	7
<u>Statement of Accounts</u>	
Explanatory Foreword	8
Statement of Accounting Policies	11
Statement of Responsibilities for the Statement of Accounts	15
Annual Governance Statement	17
Independent Auditor's Report	21
Income and Expenditure Account	24
Statement of Movement on the General Fund Balance	25
Statement of Gains and Losses	25
Balance Sheet	26
Cash Flow Statement	27
Notes to the Statement of Accounts	28

ANNUAL REPORT

INTRODUCTION

I am pleased to report that the combined totals of Stores sales, Direct orders, Period (framework) Contracts and contracts placed on behalf of specific customers has risen sharply and totals nearly £700 million for the year 2007/08.

Stores business exceeded £30 million, an increase of 4.57% which largely consisted of increased sales to non-Member customers which is particularly encouraging.

Growth in Direct orders which are orders placed by the organisation on behalf of customers resulted in an increase of nearly 4% and exceeded £44 million.

Period Contracts which are mainly call off framework contracts exceeded £300m, an increase of over 12.5%.

Contracts placed by our two Competition & Services (Commissioning) buying groups exceeded £317 million.

TRADING RESULTS

The chart below provides a detailed analysis of the trading results compared to the previous year. An adjustment has been made to the Commissioning contracts value in 2006/07 to reflect the total value of these contracts, as distinct from amortising the total value over the period of the contract. This more accurately reflects the extent of the work involved during the year.

Annual Turnover Statistics 2007/08

	Stores		Direct Orders		Period Contracts		Commissioning	
	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
CAMBRIDGESHIRE	2,250	2,294	2,030	1,667	29,623	33,102	16,319	217,678
LEICESTER CITY	2,211	2,311	1,907	3,032	41,793	44,619	2,037	15,353
LEICESTERSHIRE	2,727	2,687	1,889	2,085	54,524	59,397	16,064	18,021
LINCOLNSHIRE	2,966	3,023	1,376	1,310	18,971	25,627	621	14,273
NORFOLK	3,684	3,621	3,524	2,891	51,352	55,862	40	1,838
PETERBOROUGH CITY	837	846	425	436	8,512	8,312	6,000	28
WARWICKSHIRE	2,241	2,259	2,990	2,046	18,138	23,872	12	128
DISTRICT COUNCILS								
Cambridgeshire	121	118	700	1228	3,309	4,200	144	12,640
Leicestershire	74	85	278	294	5,396	8,791	442	0
Lincolnshire	69	74	49	59	2,836	4,306	149,900	6,720
Norfolk	89	96	545	731	5,596	7,721	150	16,600
Warwickshire	33	30	121	166	1,811	2,575	0	150
Other Users	11,624	12,803	26,793	28,273	29,961	27,580	8,012	14,305
TOTAL EXPENDITURE	28,926	30,247	42,627	44,218	271,822	305,964	199,741	317,734
% Variance Over Previous Year	3.80	4.57	4.72	3.73	15.53	12.56		59.07

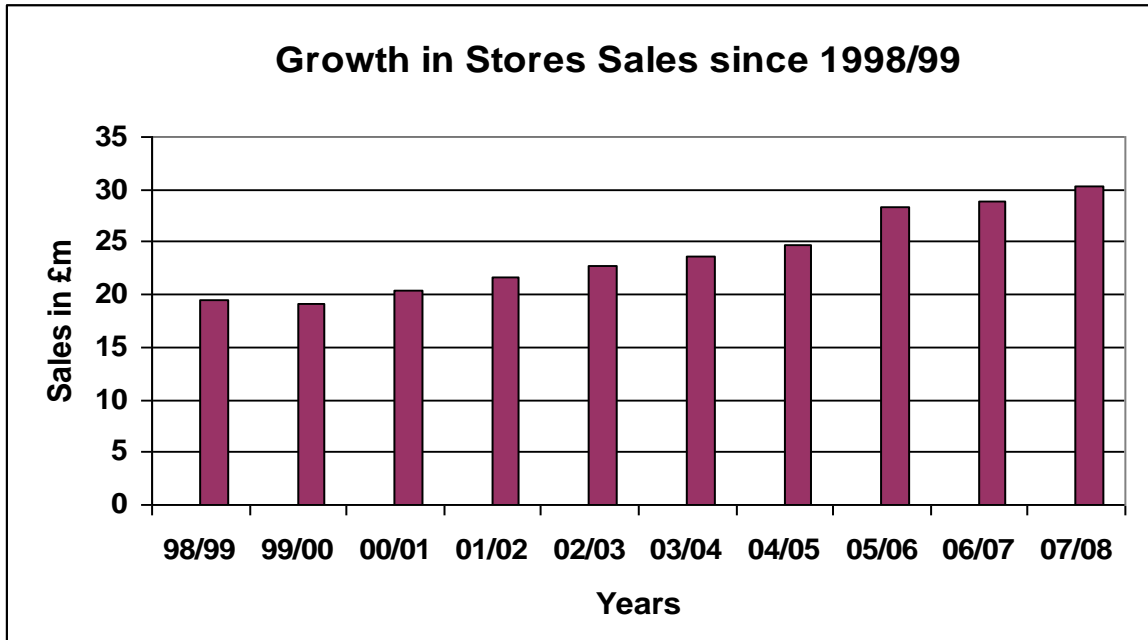
The following chart details the same statistics but provides a clearer picture of the total trading position under the four main methods of procurement within our Member Authorities:

		Turnover		Variance
		2006-07	2007-08	
		£000s	£000s	%
Cambridgeshire	Stores	2,250	2,294	1.96
	Directs	2,030	1,667	-17.88
	Period Contracts	29,623	33,102	11.74
	Commissioning	16,319	217,678	1233.89
	Total	50,222	254,741	407.23
Leicester City	Stores	2,210	2,311	4.52
	Directs	1,907	3,032	58.99
	Period Contracts	41,793	44,619	6.76
	Commissioning	2,037	15,353	653.71
	Total	47,948	65,315	36.22
Leicestershire	Stores	2,727	2,687	-1.47
	Directs	1,889	2,085	10.38
	Period Contracts	54,524	59,397	8.94
	Commissioning	16,064	18,021	12.18
	Total	75,204	82,190	9.29
Lincolnshire	Stores	2,966	3,023	1.92
	Directs	1,376	1,310	-4.80
	Period Contracts	18,971	25,627	35.09
	Commissioning	621	14,273	2198.39
	Total	23,934	44,233	84.81
Norfolk	Stores	3,684	3,621	-1.71
	Directs	3,524	2,891	-17.96
	Period Contracts	51,352	55,862	8.78
	Commissioning	40	1,838	4495.00
	Total	58,600	64,212	9.58
Peterborough	Stores	837	846	1.08
	Directs	425	436	2.59
	Period Contracts	8,512	8,312	-2.35
	Commissioning	6,000	28	-99.53
	Total	15,774	9,622	-39.00
Warwickshire	Stores	2,241	2,259	0.80
	Directs	2,990	2,046	-31.57
	Period Contracts	18,138	23,872	31.61
	Commissioning	12	128	966.67
	Total	23,381	28,305	21.06
	Sub-Total Member Authorities	295,063	548,618	85.93
Districts & Others	Total	248,053	149,545	-39.71
	Grand Total	543,116	698,163	28.55

Stores

The value of Stores sales of £30.247 million, an increase of 4.57%, is particularly encouraging given the increase of 4% last year but particularly the 14% increase in 2005/06 following the acquisition of Northampton County Supplies. Additionally we closed the Book Stores operation in 2006 which transferred sales value to period contracts. However, inflation influenced the growth figures in 2007/08 as denoted below.

The growth in Stores sales over the last 10 years is illustrated in the following chart:



Growth adjusted for price movements 0% +3.2% +7.9% +6.5% +2.9% +6.1% +4.72% +13.04% +3.8% +2.86

(The above annual turnover figures include book sales to 2006/07)

Central Stores Prices

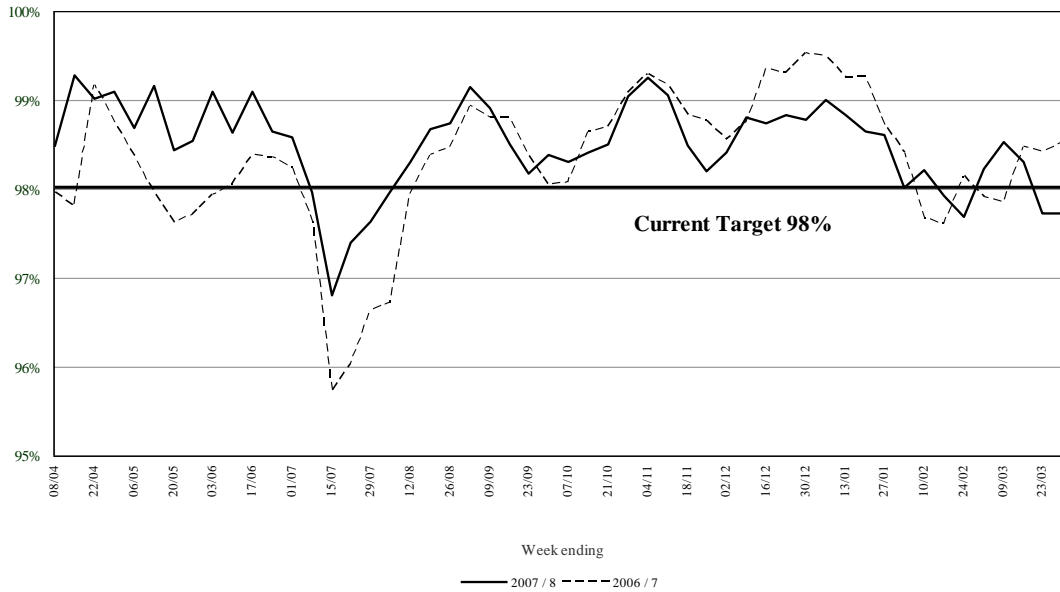
We have continued the trend of reducing or at the very least holding prices below inflation since 1996/97 largely as a consequence of increased sales leading to the organisation achieving lower buying prices. The chart below details the pattern of year on year stores price movements:

96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
0%	-1.40%	-4.50%	-1.50%	-0.10%	2.15%	-2.02%	-1.23%	-0.35%	0.18%	0.95%	1.66%
					0.23%*						

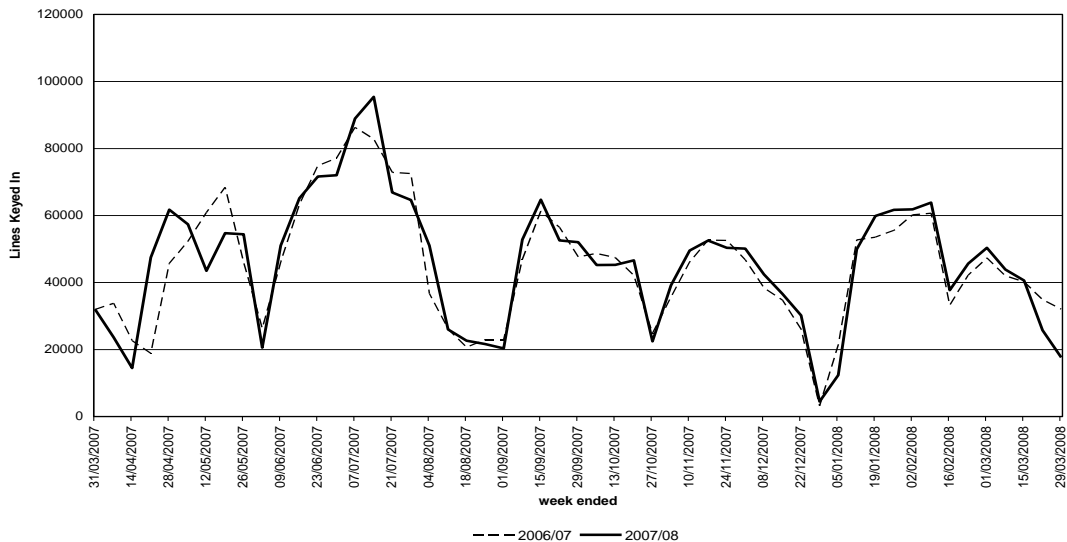
*excludes paper

Service Levels to Customers (Stock Availability)

The chart overleaf illustrates our stock availability throughout 2007/08 compared to 2006/07 and clearly demonstrates that we have consistently exceeded our target of 98%:



The graph below denotes the Stores order input figure (volume not value) for 2007/08, which reflects the significant peaks and troughs, principally a feature of schools' ordering pattern.



As reported in last year's Annual Report it is an unfortunate feature that the peaks are getting higher and the troughs deeper, which makes it increasingly difficult to plan our HR resources, stock levels and transport requirements.

Direct Orders

Sales via Direct orders have increased by approximately £1.5 million with notable increases in Cambridgeshire and Norfolk district councils plus district/city councils in non-Member areas. The increase can mainly be attributed to vehicle purchases.

Period Contracts

The increase of 12.56% in Period Contracts equates to £34 million with increases all round, particularly in Lincolnshire County Council which is largely a reflection of a very high level of participation in the new Temporary Staffing arrangements together with increased usage of our Computer Supplies contract and participation in the new RFID (Radio Frequency Identification) contract for Libraries.

The substantial increase in Warwickshire is a balance between increased usage of our Temporary Staffing contract and general increases all round.

It should be noted that the value of Period Contracts has risen simply due to the increased cost of energy, however in terms of the total value this is not a major factor.

Commissioning/Consultancy

As stated previously in the report the figures for contracts commissioned by ESPO have been adjusted to reflect total value. Examples of the contracts which comprise the £317 million are as follows:

1. East Midlands Broadband for Schools contract renewal for the next 3 years at a total value of £50.1 million.
2. A 7 year building construction contract for Cambridgeshire County Council at a total value of £210 million.
3. Another 7 year refuse collection contract for Broadland District Council in Norfolk with a value of £16.1million.
4. A similar contract has also been put in place for East Cambridgeshire District Council at a value of £9.8million.
5. A contract for Leicestershire County Council for the provision of Supply Teachers at a value of £2.4 million.
6. A contract for the extension of Comberton Village College in Cambridge at a value of £3.8 million.
7. A contract to provide business premises training and education to the seafood sector on behalf of North East Lincolnshire District Council at a value of £5.25 million.
8. A contract for the refurbishment of the Grafton East Car Park on behalf of Cambridge City Council at a value of £2.03 million.

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		Commissioning	
		2006-07 £	2007-08 £	2006-07 £	2007-08 £	2006-07 £	2007-08 £	2006-07 £	2007-08 £
Cambridgeshire	552,655	4,071	4,151	3,673	3,016	53,601	59,896	29,528	393,877
Leicester City	279,923	7,899	8,256	6,813	10,832	149,302	159,397	7,277	54,847
Leicestershire	609,579	4,474	4,408	3,099	3,420	89,445	97,439	26,353	29,563
Lincolnshire	646,646	4,587	4,675	2,128	2,026	29,338	39,631	960	22,072
Norfolk	796,733	4,624	4,545	4,423	3,629	64,453	70,114	50	2,307
Peterborough	156,060	5,363	5,421	2,723	2,794	54,543	53,262	38,447	179
Warwickshire	505,885	4,430	4,465	5,910	4,044	35,854	47,189	24	253

(Population based on 2001 Census)

MARKETING ACTIVITIES

The field based staff continue to work closely with the Member Authority Corporate Procurement Units, making sure customers at the corporate centres are aware of the services offered by ESPO.

There are clinic-style days at some authorities whilst Cambridgeshire and Lincolnshire (Procurement Lincolnshire) held a number of seminars and “roadshows” to inform customers of our joint working activities. These events tend to be supported by both procurement and field based staff.

Regionally, there are also a number of procurement and/or category related events arranged by the Regional Centres of Excellence (RCEs) and more latterly the Regional Improvement and Efficiency Partnerships (RIEPs). Many of the RCE/RIEP events are aimed at service based provision – for example, postal services, consultancy, advertising, temporary staffing etc.

Typical Examples of Exhibitions and Displays:

- Peterborough School Governor’s Conference
- Headteachers’ Conference (Leicestershire and Cambridgeshire)
- Lincolnshire Food Forum
- Cambridgeshire and Warwickshire Maths Conferences
- Leicester City ICT Awareness Day
- EXPO Ed (Cambridgeshire County Council)
- Staffordshire County Council Suppliers’ Event
- Coventry City Schools’ Workshop
- Leicestershire Meals on Wheels Celebrations

Plus a number of other smaller displays which support local seminars, workshops and SME events.

We also continue to attend the Education Show at the NEC Birmingham, where we exhibit and promote our supply of furniture, fixtures and equipment for the BSF Programme; this year the focus was on sustainability (environment).

Specific Marketing

Our focus continues to be across the three regions (East, East Midlands and West Midlands) covered by the Member Authorities. In addition, we are enjoying continued success in the Gwent region of South Wales; during 2007 we extended our coverage to Caerphilly and Cardiff and I am pleased to report that the level of Stores business is almost £1 million for the year.

Environmental/Sustainable Procurement

As reported to Committee last June, we produced a Sustainable Products catalogue which was sent to customers in the autumn of 2007. The catalogue is fully EU compliant and was supported by all the Regional Centres of Excellence.

We also used the broad content of the catalogue to introduce a sustainable theme to our exhibition stand at the Education Show in March.

In September 2007, and continuing with the sustainable procurement theme, we submitted a proposal to ICLEI (International Council for Local Environmental Initiatives) who were putting together a European bid for EU funding for a joint procurement initiative called Smart SPP (Sustainable Procurement Programme) which is aimed at encouraging market penetration of innovative, highly energy-efficient products. The project sits within the overall scope of the European Commission’s Intelligent Energy Programme.

I am pleased to report that ESPO were accepted as a partner to the Smart SPP project which is likely to commence in November 2008 with appropriate EU funding.

STAFFING

Compared to last year we have only increased staffing by one despite the substantial increase in all sectors of our activities.

ANALYSIS OF MANPOWER

		2006/07		2007/08	
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	2.0		1.0	
	CONTRACTS ADMIN OFFICER	1.0		1.0	
	ADMIN & CLERICAL *	<u>15.3</u>	44.3	<u>15.3</u>	43.3
COMMODITY DIVISION					
	DIVISION HEAD	1.0		1.0	
	SALES/MAJOR ACCTS MGR	1.0		1.0	
	BUYERS	16.5		17.5	
	TRAINEE BUYERS	3.0		2.0	
	EXPEDITING/DIRECT DELIVERIES	9.6		7.6	
	FIELD SALES EXECUTIVES	7.7		7.7	
	CATALOGUE PRODUCTION	7.0		7.0	
	ADMINISTRATION ASSISTANTS	6.0		9.0	
	CUSTOMER SERVICES *	<u>19.7</u>	71.5	<u>19.5</u>	72.3
FINANCE DIVISION					
	DIVISION HEAD	<u>1.0</u>	1.0	<u>1.0</u>	1.0
ACCOUNTS/ADMIN					
	ACCOUNTANTS	2.0		2.0	
	FINANCE SUPERVISORS	3.0		3.0	
	FINANCE ASSISTANTS	<u>17.0</u>	22.0	<u>15.3</u>	20.3
IT SECTION					
	MANAGER	1.0		1.0	
	DEPUTY MANAGER	1.0		1.0	
	TECHNICAL SPECIALISTS/ANALYSTS	2.0		2.0	
	HELPDESK/OPERATIONS SUPPORT	2.0	6.0	2.0	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	6.0		6.0	
	DELIVERY DRIVERS ++	35.0		38.0	
	SELECTORS INC DATA ENTRY ++ *	78.0		74.0	
	FORKTRUCK DRIVERS/GOODS IN ++	24.0		26.0	
	GOODS OUT	11.0		13.0	
	HOUSEKEEPERS/HANDYMAN *	<u>7.6</u>	165.6	<u>7.6</u>	168.6
WAREHOUSE SUPPORT					
	SUPERVISORY	1.0		1.0	
	PROJECTS, TRAINING, QUAL CONTROL, STOCK AUDIT	7.0		7.0	
	TRANSPORT PLANNING*	<u>4.7</u>	12.7	<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					
† Staff redeployed					
			<u>330.8</u>		<u>331.9</u>

ESPO STATEMENT OF ACCOUNTS 2007/08

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 2008 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 2007/2008

I am pleased to report that this year has again seen continuing growth in all aspect of our business. The use of our products and services by our member authorities and by other customers, as measured by the value of their combined procurement activities, amounted to £698million. A more detailed commercial assessment of these activities during this financial year is contained within the ESPO Annual Report for 2007/08 which is prefixed to the Statement of Accounts.

The result of this continued growth in procurement activities is reflected within the statutory accounts through an increase in invoiced sales of 6.4% to achieve a total for the year of £72.3million. Our net income, after charging direct costs, has increased by 8.8% to a total value for the year of £14.9million. This represented a slightly improved margin percentage and reflected our ability to hold contracted prices during a period of rising inflationary pressures on commodities. This enabled us to hold or even reduce many of our Stores selling prices and to limit our overall price increase in the 2007/08 Stores Catalogue to 1.6%, well below official published price and wage increases.

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 cashable savings. This organisation continues to work closely with member authorities on regional procurement initiatives and on E-Government targets which are driving an increased use of ESPO contracts and consultancy services.

2007/08 was the second full year of operation from our new purpose-build premises at Grove Park, Enderby and our expenditure reflects improved operational efficiencies as we introduce new methods and working practices that take advantage of these facilities. This has enabled us to continue to extend our area of operations and increase the range of products on offer whilst containing service expenditure increases to 0.7% over the previous year.

ESPO has joined with four other similar local authority purchasing consortia to develop a collaborative approach to contracting under the name of “Pro5”. The increased combined spending power of this group resulted in price and service benefits to member authorities and to other customers. In conjunction with Pro 5 ESPO initiated the 2007/08 National Sustainable Products Catalogue for distribution to all local authorities in England and Wales.

The net surplus on the Income and Expenditure Account for this year was £0.92million (the result for 2006/07 was a surplus of £.038million). 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.

Future Prospects

ESPO will continue to support member authorities and the recently formed RIEPS on regional procurement initiatives and on meeting Government targets. This continues to drive increased use of ESPO strategic services whilst the development of corporate procurement policies by member authorities and district councils is driving increased use of ESPO contracts.

The range of contracts tendered in collaboration with other members of Pro 5 will continue to grow and provide improved value for money to customers in a period when authorities’ budgets are under increased pressure from rising inflation. 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, facilities and systems during 2008/09 in support of continuing growth in demand for our services.

ESPO’s Accounts

The following accounting statements represent the Eastern Shires Purchasing Organisation’s accounts for the 2007/08 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 2008 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 2008. It incorporates all the consortium funds.

Statement of Movement on the General Fund Balance

This statement reconciles the net surplus or deficit on the Income and Expenditure Account to the movement in the General Fund balance.

Statement of Total Recognised Gains and Losses

This statement 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 2008 and its income and expenditure for the year ended 31st March 2008.

Date of Authorisation:

The accounts were authorised for issue 24 June 2008 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

B Roberts
Consortium Treasurer

Date: 24 June 2008

Date:

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Statement of Accounts summarises ESPO's transactions for the 2007/08 financial year and its position at the year end of 31st March 2008. It has been prepared in accordance with SORP, the Code of Practice on Local Authority Accounting in the United Kingdom 2007: 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.

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.

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 purposes of various revenue reserves held by ESPO and details of the movements in each of these reserves are contained in the Notes to the Statement of Accounts (Notes 20 & 21) on page 35.

(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 relevant policies below.

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 on an accruals basis 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 on an accruals basis 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. 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. Any additions since that date are included in the accounts at their cost of acquisition.
- 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.
- Assets included in the Balance Sheet at current value are revalued where there has been a material change in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to revenue.
- The revaluation reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.
- Surplus assets are valued at the lower of net current replacement cost or net realisable value. Any revaluation gains in the Revaluation Reserve when an asset is disposed of are transferred to the Capital Adjustment Account.

(iv) Impairment

Where impairment is identified as a result of a valuation exercise or from a review of assets that are not being depreciated, this is accounted for by a loss in the service revenue account where attributable to consumption of economic benefits, otherwise the loss is written off

against any revaluation gain attributable to the relevant asset in the Revaluation Reserve, with any excess charges to the revenue account.

Where an impairment loss is charged to the Income & Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

(v) Depreciation

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 three to eight years.
- Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation and the depreciation that would have been chargeable on their historical costs being transferred annually from the Revaluation Reserve to the Capital Adjustment Account.

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 2007/08 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. 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, which as a Deemed Utility ESPO collects from its customers on behalf of HM Revenue and Customs, as all CCL collected is payable to them.

6. LEASES

Rentals payable under operating leases are charged to the relevant revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable. ESPO has no finance leases.

7. FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

For all of the borrowings that the organisation has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

8. FINANCIAL ASSETS

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For all of the loans that the organisation has made, this means that the amount presented in the Balance Sheet is the outstanding principle receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

9. 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 Statement of Standard Accounting Practice (SSAP) 9, "Stocks and Long Term Contracts", which requires stock to be valued at the lower of cost or net realisable value.

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 4th July 2008.

Councillor A. Cockburn
Chairman, ESPO Management Committee

Date:

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 2008, 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.

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, 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 2008 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:

- 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, 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. 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, 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 customer satisfaction surveys, price benchmarking, advisory panels, and performance KPIs. Use of the consortium's services is voluntary, it receives no other 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. All posts have a detailed job description and personal specification. Staff are employed by Leicestershire County Council on a rechargeable basis under ESPO local conditions of service.
- 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.
- 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 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 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 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 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 three times each year. This committee's responsibilities include overview, scrutiny and audit whilst a sub committee is responsible for approving staff bonus targets. The Management Committee reviews consortium corporate governance arrangements on a needs basis.
- The Director and Management Committee review the strategic and business objectives annually 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. Major risks to the organisation are assessed, appropriate action taken where risks exceed the approved risk threshold and progress reported to Committee annually. Requests for Members' approval of key development projects include a comprehensive risk assessment within the business case.

- 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.
- 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.
- A Senior Officer Group consisting of senior managers from each member authority meet regularly with ESPO senior management to review matters of common interest in order to ensure that the 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 and to consider progress on key development projects. When necessary, the SMT determines, agrees and instigates immediate corrective action where performance is below target.

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".	An addition will be prepared to the Code of Practice in 2008/09 for approval by the Management Committee to recognise the role and responsibilities of member authorities for elected committee members' standards of conduct, training, succession planning etc.
2	There are no approved succession plans for Senior Officers.	A report will be presented to the Management Committee in 2008/09 on Senior Officer succession planning.

Note: The requirement to introduce a risk management policy and complete a review of the consortium's major risks that was included in the 2006/07 Statement of Internal Control has been completed and is no longer identified as requiring action.

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:

K. G. May
Director of ESPO

Date: 2008

Councillor A. Cockburn
Chairman, ESPO Management Committee

Date: 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EASTERN SHIRES PURCHASING ORGANISATION

We have audited the financial statements of the Eastern Shires Purchasing Organisation for the year ended 31 March 2008 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 relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 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 the 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 relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Joint Committee and its income and expenditure and cashflows for the year.

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE 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, nor have we considered, whether the Governance Statement 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 Organisation 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 relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Eastern Shires Purchasing Organisation as at 31 March 2008 and its income and expenditure and cash flows for the year then ended.

Date

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington DE74 2UZ

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

The 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.

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, the Eastern Shires Purchasing Organisation made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

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.

Date

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington DE74 2UZ

EASTERN SHIRES PURCHASING ORGANISATION
INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31ST MARCH 2008

2006-07	<u>Note</u>	2007-08	
£'000		£'000	
<u>PRIOR YEAR</u>		<u>INCOME</u>	<u>EXPENDITURE</u>
<u>NET</u>		<u>GROSS</u>	<u>GROSS</u>
<u>£'000</u>		<u>£'000</u>	<u>£'000</u>
		<u>NET</u>	
		<u>£'000</u>	
<u>SERVICE INCOME:</u>			
(7,437)	Central Stores	(30,247)	22,112
(6,238)	Central Purchasing	(42,025)	35,279
<u>(13,675)</u>	<u>TOTAL</u>	<u>(72,272)</u>	<u>57,391</u>
<u>SERVICE EXPENDITURE:</u>			
8,267	Employees	[2,3]	8,538
167	Other Employee Expenses		125
565	Premises		516
1,293	Transport		1,165
1,079	Equipment	[1]	1,033
311	Office Expenses		302
837	Other Expenses		933
81	Support Service Charges		72
<u>12,600</u>	<u>TOTAL</u>		<u>12,684</u>
<u>(1,075)</u>	<u>NET COST OF SERVICES</u>		<u>(2197)</u>
<u>CORPORATE INCOME AND EXPENDITURE:</u>			
0	Gain or loss on disposal of fixed assets		0
(47)	Interest and Investment Income		(61)
546	Interest Payable and Similar Charges		539
201	Dividends to Member Authorities		798
<u>(375)</u>	<u>(SURPLUS) / DEFICIT FOR YEAR</u>		<u>(921)</u>

EASTERN SHIRES PURCHASING ORGANISATION
STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR YEAR ENDED
31ST MARCH 2008

<u>2006-07</u>	<u>Note</u>	<u>2007-08</u>
£'000		£'000
(375)	(Surplus)/deficit for the year on the Income & Expenditure Account	(921)
463	Net amount required by Statute and non-statutory proper practice to be debited or credited to the General Fund Balance for the year.	646
88	(Increase)/Decrease in the General Fund Balance for the year	(275)
(1,228)	General Fund Balance brought forward	(1,140)
(1,140)	<u>General Fund Balance carried forward</u>	(1,415)

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR YEAR ENDED 31ST MARCH 2008

<u>2006-07</u>	<u>Note</u>	<u>2007-08</u>
£'000		£'000
(375)	(Surplus)/deficit for the year on the Income & Expenditure Account	(921)
152	(Surplus)/Deficit arising on revaluation of fixed assets	(11)
(223)	<u>Total recognised (Gains)/Losses for the year</u>	(932)
(4,273)	Opening Net Worth value at 1 st April 2007	(4,496)
(4,496)	<u>Closing Net Worth value at 31st March 2008</u>	(5,428)

EASTERN SHIRES PURCHASING ORGANISATION

CASH FLOW STATEMENT

	Notes	<u>2006-07</u>		<u>2007-08</u>	
		£'000	£'000	£'000	£'000
REVENUE ACTIVITIES :					
Cash Outflows -					
Cash Paid to & on behalf of Employees		8,466		8,661	
Cash Paid for Goods & Services		55,915		55,882	
Other Operating Cash Payments		3,773		3,537	
Cash Inflows -					
Cash Received for Goods & Services		(68,225)		(71,738)	
Revenue Activities Cash Flow	[22]	(68,225)	(71)	(71,738)	(3,658)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE :					
Cash Outflows -					
Dividends paid		368		201	
Interest paid		546		539	
Cash Inflows -					
Interest Received		(47)		(62)	
		(47)	867	(62)	678
CAPITAL ACTIVITIES :					
Cash Outflows -					
Purchase of Fixed Assets		449		212	
Cash Inflows -					
Sale of Fixed Assets		(268)		(11)	
		(268)	181	(11)	201
NET CASH INFLOW / OUTFLOW BEFORE FINANCING :			977	(2,779)	
MANAGEMENT OF LIQUID RESOURCES :					
Net Increase /(Decrease) in Short Term Investments			(835)		551
FINANCING :					
Cash Outflows -					
Repayment of amounts borrowed	[23]	500		500	
		500	500	500	500
(INCREASE)/DECREASE IN CASH :			642	(1,728)	

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 £82,073 (2006/07 - £161,432).

As at 31st March 2008, ESPO has a commitment to meet the following rentals in 2008-09:

<u>Operating Leases which expire:</u>	<u>31 March 2007</u>	<u>31 March 2008</u>
	<u>£'000</u>	<u>£'000</u>
Within 1 year	25	77
2 to 5 years	90	81
Over 5 years	-	-
Total	<u>115</u>	<u>158</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 2007/08 ESPO paid an employer's contribution of £828,003, (2006/07 - £765,058), into the Pension Fund, representing 15.0% of pensionable pay. This 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 230% in 2006/07 to 250% of an employee's contribution in 2007/08.

In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2007/08 these amounted to £9,673, (2006/07 - £9,831), representing 0.15% of pensionable pay.

3. OFFICERS' REMUNERATION

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

£	<u>2006/07</u>	<u>2007/08</u>
50,001 - 60,000	-	-
60,001 - 70,000	4	3
70,001 - 80,000	-	1
80,001 - 90,000	-	-
90,001 - 100,000	-	-
100,001 - 110,000	-	-
110,001 - 120,000	-	-
120,001 - 130,000	1	-
130,001 - 140,000	-	1

Please note that the figures for 2006/07 have been re-instated to include employees' pension contributions.

4. TRANSACTIONS WITH RELATED PARTIES

Transactions between ESPO and other local authorities, including consortium member authorities, account for approximately 80% 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>2006/07</u> <u>£'000</u>	<u>2007/08</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.	20	21.5

7. DISCLOSURE OF PUBLICITY COSTS.

Per the requirements of section 5(1) of the Local Government Act 1986 [s 115(c) of the Local Government Act (Northern Ireland) 1972], the organisation's spending on publicity was:

	<u>2006/07</u> <u>£'000</u>	<u>2007/8</u> <u>£'000</u>
Recruitment Advertising	20	13
Other Advertising	28	15
Other Publicity	<u>419</u>	<u>455</u>
	<u>467</u>	<u>483</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:

2006-07			2007-08	
£'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:		
(24)		Amortisation of intangible assets	(24)	
<u>(402)</u>		Depreciation and impairment of Fixed Assets	<u>(423)</u>	
	(426)			(447)
		Amounts excluded from the Income and Expenditure Accounts required to be included when determining the movement on the General Fund balance for the year:		
500		Min. Rev. Provision. for capital financing loans	500	
15		Capital expenditure charged in the year to the General Fund	0	
<u>0</u>		Capital Receipts	<u>(12)</u>	
	515			488
		Transfers to or (from) the General Fund Balance required to be included in determining the General Fund balance for the year:		
85		Net transfer to or (from) Earmarked Reserve	296	
289		Net transfer to or (from) Repairs & Renewals Reserve and Maintenance Reserve.	<u>309</u>	
	374			605
	<u>463</u>	<u>Net additional amount required to be (credited)/debited to the General Fund Balance for the year</u>		<u>646</u>

9. MOVEMENT OF FIXED ASSETS DURING THE YEAR

	<u>Intangibles (Purchased Software Licences)</u> £'000	<u>Land & Buildings</u> £'000	<u>Vehicles, Plant & Equipment</u> £'000
<u>Historical Cost or Valuation:</u>			
Opening value as at 1st April 2007	175	12,450	2,721
Reclassification of assets	0	0	0
Additions	0	0	212
Disposals	0	0	(12)
Revaluations	0	0	(143)
Closing Value as at 31st March 2008	175	12,450	2,778
<u>Cumulative Depreciation</u>			
Opening value as at 1st April 2007	(104)	(106)	(1,520)
Disposals	0	0	0
Depreciation this year	(22)	(106)	(319)
Revaluations	0	0	155
Closing Value as at 31st March 2008	(126)	(212)	(1,684)
<u>Net Book Value as at 31st March 2008</u>	49	12,238	1,094

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

	<u>Intangibles</u> £'000	<u>Buildings</u> £'000	<u>Vehicles, Plant & Equipment</u> £'000
Financed from Revenue	-	-	-
Financed from Earmarked Reserves	-	-	-
Financed from Vehicle & Equipment Reserves	-	-	212
Financed from Stores Maintenance Reserves	-	-	-
	-	-	212

11. CAPITAL COMMITMENTS

	<u>31st March, 2007</u> £'000	<u>31st March, 2008</u> £'000
Contracts entered into during the year, where payments remain to be made.	212	191

12. NOTE TO THE ACCOUNTS ON FINANCIAL INSTRUMENT BALANCES.

The borrowings and investments disclosed in the Balance Sheet are made up of the following Categories of financial instruments:

	<u>Long-Term</u>		<u>Current</u>	
	<u>31st March</u>	<u>31st March</u>	<u>31st March</u>	<u>31st March</u>
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Financial Liabilities at amortised cost	11,500	11,000	10,523	11,585
Total Borrowings	11,500	11,000	10,523	11,585
Loans and Receivables	0	0	9,140	10,466
Total Investments	0	0	9,140	10,466

13. 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's overall risk management programme focuses on the unpredictability of customer demand and on maintaining its reputation for service quality and value for money as ESPO only receives income earned through its commercial activities. 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.

Credit Risk

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 5 years, adjusted to reflect current market conditions.

	Amount at 31 March 2008 £000s	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2008 %	Estimated maximum exposure to default and uncollectability £000s
Deposits with Banks	240	0	0	0
Customers	6,006	0.34	0.41	24.5
				24.5

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 30 days for customers. A total of £1.24m of the balance of £6.01m was overdue at 31st March 2008 and can be analysed as follows:

	£000s
Less than one month overdue	1,051
Between one and three months	178
More than three months overdue	12
	1,241

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 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 4.65% pa.

The maturity analysis of financial liabilities:

	<u>Total Outstanding at 31st March 2007</u> £'000	<u>Total Outstanding at 31st March 2008</u> £'000
<u>Lender</u>		
Leicestershire County Council	11,500	11,000
<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	7,000	6,500

Market 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% rate change would be an increase in income on investments of £11,000 and an increase in expenditure on borrowings of £2,000.

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

14. DEBTORS

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

	<u>31 March, 2007</u>	<u>31 March, 2008</u>
	£'000	£'000
Current Debtors		
Reserved Debtors	713	770
Sundry Debtors (Customers' Accounts Balances)	5,529	6,006
Less Provision for Bad Debts	(152)	(150)
	<u>6,090</u>	<u>6,626</u>
<u>Analysis of Bad Debts Provision</u>		
Opening Balance as at 1st April 2007	(147)	(152)
I & E Charge for the Year	(10)	(40)
Less Bad Debts Written Off	5	42
Closing Balance as at 31st March 2008	<u>(152)</u>	<u>(150)</u>

15. CREDITORS AND OTHER CURRENT LIABILITIES

	<u>31 March</u> <u>2007</u> £'000's	<u>31 March</u> <u>2008</u> £'000's
<u>Current Creditors:</u>		
Supplier Account Balances	(5,086)	(5,548)
Payroll Deductions	(231)	(234)
Reserve Creditors	(2,386)	(2,250)
	<u>(7,703)</u>	<u>(8,032)</u>
<u>Other current Liabilities</u>		
Taxes and Duties	(484)	(471)
Members Dividend	(201)	(798)
Suspense and Recharges	(147)	(1,783)
	<u>(832)</u>	<u>(3,052)</u>

16. SHORT TERM INVESTMENTS

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

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITES

Financial liabilities and financial assets represented by loans and receivables 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:

- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	<u>Carry Amount</u> <u>£'000's</u>	<u>31st March 2008</u> <u>Fair Value</u> <u>£'000's</u>
Financial Liabilities	11,500	11,401

The fair value is less than the carrying amount 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 if billed amount which is the same as the carrying amount on the Balance Sheet.

18. 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 approximately £3.7 million as at 31st March 2008 and are included in 'Sundry Debtors' as detailed in the notes to the Statement of Accounts..

Amount due to member authorities for services provided to ESPO amounted to £35,612 as at 31st March 2008 and are included within the value of 'Creditors' under 'Current Liabilities' on the Consolidated Balance Sheet.

19. MOVEMENT IN NON CASH BACKED RESERVES

	2007/08 £000
<u>Revaluation Reserve:</u>	
Opening Balance as at 1 st April	0
Revaluation adjustment	12
Disposals	(12)
<u>Closing Balance as at 31st March</u>	0
<u>Capital Adjustment Account:</u>	
Opening Balance as at 1 st April	1,906
Capital Financing – Revenue	
- Reserves	212
Capital Charges Reversal	(447)
Loan Repayment	500
<u>Closing Balance as at 31st March</u>	2,171

Note: There are no comparative figures for last year. Please refer to the “Explanatory Note” on the Balance Sheet.

20. MOVEMENT IN RESERVES:

2006/07		2007/08				
		General Operating Fund	Earmarked	Vehicles & Equipment	Building Maintenance	Total
£000		£000	£000	£000	£000	£000
55	Bank Interest Credited	0	1	52	4	57
258	Transfers to: Reserves from Revenue	0	300	250	18	568
(77)	Revenue	0	(5)	(16)	0	(21)
(434)	Capital Financing	0	0	(212)	0	(212)
50	Add retained Net Surplus for year	275	0	0	0	275
(148)	Total Movements in Reserves:	275	296	74	22	667
2,738	Balance brought forward at 1 st April	1,140	16	1,323	111	2,590
2,590	Balance carried forward at 31 st March	1,415	312	1,397	133	3,257

21. 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.

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

	<u>2006/07</u>		<u>2007/08</u>	
	£'000	£'000	£'000	£'000
(Surplus)/Deficit for the Year	<u>(375)</u>		<u>(921)</u>	
		(375)		(921)
Non-cash Transactions -				
Depreciation	<u>(426)</u>		<u>(447)</u>	
		(426)		(447)
Cash Transactions -				
I & E Interest	(500)		(478)	
Gain on Sale of Fixed Asset	<u>0</u>		<u>0</u>	
		(500)		(478)
Items on Accruals Basis -				
Increase/(Decrease) in Stocks	140		403	
Increase/(Decrease) in Debtors	(950)		535	
Decrease/(Increase) in Creditors	2,416		(330)	
Decrease/ (Increase) in Tax Creditor	(214)		13	
Decrease/ (Increase) in Other Liabilities	<u>(162)</u>		<u>(2,433)</u>	
		1,230		(1,812)

Net Cash Flow from Revenue Activities	<u>(71)</u>	<u>(3,658)</u>
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23. MOVEMENT IN FINANCING ITEMS

	Balance 1 st April 2007 £'000	Balance 31st March, 2008 £'000	Cash Movement In the Year £'000
Analysis in Borrowings:			
Leicestershire County Council:			
Long Term	(11,500)	(11,000)	500
Short Term	(500)	(500)	0
	<u>(12,000)</u>	<u>(11,500)</u>	<u>500</u>

24. MOVEMENT IN CASH

	Balance 31st March, 2007 £'000	Balance 31st March, 2008 £'000	Cash Movement In the Year £'000
Cash in Hand and at Bank	1	241	(240)
Cash Overdrawn	(1,488)	0	(1,488)
Net Decrease/(Increase) in Cash	<u>(1,487)</u>	<u>241</u>	<u>(1,728)</u>