ESPO

# Annual Report 2015/16

## Statement of accounts and annual governance statement

www.espo.org

# Contents

# Director's statement

**J. Doherty,** Director

## Welcome

**Welcome to the ESPO annual report and account summary for 2015/16.**

**In this past year, there have been further developments at ESPO and in our market. In particular, our customers face more strain on their budgets than ever before. As a Public Sector Professional Buying Organisation (PBO) our job to provide great value every day becomes more crucial than ever as we help our customers make the most out of limited resources. As budgets continue to be stretched and the market reacts to changes beyond our control, our response continues to be strong. In our 35th year, we continue to deliver to our core values and look forward to a future based on these commitments.**

## 35 Years in Public Sector Procurement

We will work in partnership with our stakeholders to drive value-for-money for the public sector through comprehensive procurement solutions.

**Our mission:**

**"To work in partnership with our stakeholders to drive value-for-money for the public sector, through comprehensive procurement solutions."**

ESPO is a Professional Buying Organisation (PBO) within the public sector which has been supplying the education and wider public sector for 35 years. We are jointly owned by six member authorities and are committed to providing value-for-money for our customers by pursuing best practice in procurement, sourcing, supply chain management, contract management and compliance.

Providing access to a complete suite of procurement solutions, we offer a comprehensive products catalogue, access to over 150 frameworks, and bespoke procurement advice.

Our team of professionals work hard, day-in and day-out, to bring our customers great value every day:

- **35 years of experience providing first-class procurement solutions for the public sector**
- **Access to 27,000 product lines, with over 10,000 held at our 120,000 square foot warehouse**
- **90,000 products picked from our warehouse every week**
- **6,000 customers delivered to every week**
- **Over 150 framework solutions, and many other procurement solutions**
- **A dedicated team of over 300 staff**

As well as meeting the buying needs of our broad customer base, we also understand the need to fully embrace the requirements of our Member Authorities.

**ESPO will target an annual**

**3.5%**

**return on capital**

We are dedicated to continual improvement, through the development of our staff as well as through proactive collaborations with customers and other partners to engage markets, challenge current practices and develop innovative new commissioning and sourcing strategies. Our commercial experience, market insight, category expertise and best practice sourcing ensure that we can respond quickly and effectively to the changes in this dynamic and fast changing marketplace.

We strive to be the first choice provider of public sector procurement solutions.

**Our vision:**

**"To be the first choice provider of public sector procurement solutions."**

## Confidence and Transparency

As a Local Authority owned organisation, we are governed by a rigorous structure of controls. As part of this process, we produce a set of accounts which informs our stakeholders that ESPO has properly accounted for all public money received and spent. This gives them confidence that our financial standing is secure.

Managing risk and performance is also an integral part of our day-to-day operational performance; and risk management is monitored and reviewed through a compliance process and a risk strategy. In addition to management at operational level, oversight and escalation is through the ESPO Leadership team and the ESPO Management Committee.

Our financial activity in relation to the service we provide is shown through a number of key financial statements and notes. These can be found throughout this annual report.

## Trading Results

In an increasingly challenging market, our customers are currently facing a prolonged period of uncertainty alongside increasing cuts to their budget. As our customers combat significant issues, ESPO as a business remains in a strong position. Our income is derived from many sources right across the local, national and wider public sector from both our catalogue and framework ranges. However, it comes as little surprise that this challenging climate is reflected in our sales figures for the year with total sales at £88.6 million, compared to last year's total of £93.5 million.

Our catalogue sales experienced a decrease of 4% over the year. We know that this is primarily down to reduced funding experienced in the non-education sector, alongside the general downturn in the education market as a whole. Contributing to this is the fluctuation in market movements, which has resulted in lower gas wholesale prices that have been passed onto our customers over the past year. Therefore you can see how this has caused a decrease in sales. This is a trend being experienced across the market and is reflected in the independent data collected through the British Education Suppliers Association (BESA).

ESPO's response throughout the year has been particularly strong as we work together to develop smarter ways of achieving our objectives and to continue to deliver the best value solutions to our customers. I am pleased to share that despite these market pressures we have still managed to achieve our record surplus target of £3.3 million which is recirculated back into the public purse through our owners. This compares favourably against last year's result of a £2.2 million surplus. It is a significant milestone in working towards our Medium Term Financial Strategy and reflects a performance of which we are all proud.

Building on this, it was another record year for rebates from our framework offering. Here we have enjoyed an increase of 4% over the year. This has been achieved through a number of initiatives that will continue to grow in this area.

We have carefully considered our margin, as part of a catalogue range review, which is reflected in our overall buying costs. Further to this, the implementation of efficiency projects is ongoing throughout ESPO and savings in our total expenditure have already been secured. This includes efficiencies to working practices across the operations of our catalogue business which have helped to reduce our expenditure to £17.2 million, saving an impressive £0.7 million compared to the previous year.

Overall, our financial performance has been robust, and puts ESPO in a strong position for future growth.

## Procurement Update

Our customers value ESPO's procurement solutions which are delivered by skilled procurement experts. In order to maintain this high level of expertise, ESPO invests in this cohort with all relevant training. This year ESPO hosted its very own Economics in Procurement Masterclass, a new training event, well received by those attending. The Masterclass was delivered by Dr John Glen, CIPS Economist and Director of the Centre for Customised Executive Development, Cranfield School of Management. Two separate sessions were held and they provided an opportunity for delegates to focus on global and domestic events and to understand how this impacts on Government Policy, global demand, supply markets and the consequences of these on procurement. A total of 76 ESPO staff and 17 member authority staff attended the event.

We also hosted a one-day Introduction to public procurement training event, which was attended by 35 ESPO staff including Account Managers, Trainee Procurement Officers, Assistant Procurement Officers and Contract Support Officers.

In 2015/2016, all tenders (without exception) were done through our e-tendering system, which becomes a mandatory requirement by 2017. More than 100,000 suppliers are registered on the East Midlands procurement portal and most of these registered suppliers are SMEs. In the third quarter of 2015, a new version of the system was introduced by the service provider. This new version increased the efficiency of the system, improved users experience and covered some of the new compliance requirements under the Public Contracts Regulation, which came into force at the beginning of 2015.

As well as our market leading solutions such as MSTAR², Gas and Electricity provision, Multi-Function Devices (MFDs), and Catering Services, the Procurement teams have been busy with a range of new framework contracts awarded across our broad offering. This includes the Total Facilities Management framework which was born out of wide interest generated from customers; it is envisaged to be extremely popular. The new Washroom Services framework has also been awarded, retaining market leading providers. It will allow customers easy access to a high level of services at a reduced cost when compared to its predecessor. Another exciting development comes in the form of the new Interpretation and Translation Services framework which provides a range of language support services on a national scale. This has already attracted a great deal of interest from local police bodies, NHS and local authority customers. Finally, working closely with Public Health England and local authority commissioners across the country, the framework for HIV Self Sampling was awarded. Successfully achieving excellent pricing, this framework can now be used by every Local Authority in England.

As well as frameworks, the teams have undergone a number of bespoke procurement activities including work commissioned by Leicestershire County Council and Leicester City Council to procure a Substance Misuse Treatment service which will be integrated across Leicestershire and Leicester City for the first time.

## Marketing Activity

In 2015/16, ESPO was represented at multiple events, exhibitions and conferences promoting both our education and corporate offerings. Made up of a range of local and national events, this channel continues to play a strong part in our annual marketing plan. Some of the highlights of the year include the following:

- The Academies Show (London and Birmingham)
- The LACA Main Event
- NASBM National Conference
- Inspiring Leadership Conference
- Society of Procurement Officers in Local Government (SOPO)
- The Public Sector show
- The Chartered Institute of Housing event

As well as the above, we have also ran a number of training initiatives for customers to improve their procurement knowledge including a series of regional procurement workshops in association with NASBM, an Afternoon Tea event to promote our food and catering frameworks and a live webinar to promote our MSTAR² framework, the first of its kind here at ESPO.

I am also pleased to report that we secured 'Gold Merchant' status from our independent feedback provider Feefo. This was awarded for achieving greater that 95% positive ratings from our catalogue customers in 2015 based on over a thousand reviews.

## Significant Matters

A valuation of the land and buildings at Grove Park has been carried out and the valuation now stands at £11 million, an increase of £0.5 million on the prior year.

The Medium Term Financial Strategy, including the budget for 2015-16, was approved by the Management Committee in March 2015. The four-year strategy focuses on value for money, increasing return for stakeholders, growth and developing increased capability within the organisation as we strive toward our vision of being the first choice provider of public sector procurement solutions in the country.

## People at our Heart

Reporting on another successful year would not be complete without taking the time to recognise the extraordinary efforts of the staff here at ESPO. We are fortunate to have so many long standing members of staff and during the past year the following have achieved their 25 years Long Service Award:

- Theresa Norton
- Tracy Weston
- Karen Grewcock
- Karen Davis
- Ian Horobin

In addition, I am proud to mention three members of staff having exceeded this and marked 30 and 35 years with ESPO. My thanks and congratulations go to Jane Woodham and Lila Mistry for 30 years of service; and also to Jane Houston who exceeded 35 years of service.

It is with sadness that we announced the passing of our longest serving member of staff, Gordon Smith, who had been with us since 1970. Gloria Wright, a long serving and much loved member of staff, also passed away in this past year.

I would like to thank all those who retired during 2015/16 and wish them well. This includes Steve Burton, Stephen Clarke, Barry Cooper, Ian Cunningham, Hasmukh Gadhia, Alan Hind, Barbara Roberts, Janice Streather and Martin Stuart.

Finally, I would like to acknowledge our Employee of the Year, Istvan Todor, Technical Support Officer. Special mention must also go to our winner of the Outstanding Contribution Award, Laura Maitland, Category Manager; and the recipient of the Special Recognition Award, Sandra Sewell, Corporate Account Manager.

## In Summary

We are charting our way through difficult market conditions, and in spite of that performing significantly stronger as an organisation.

We have the commitment of our staff, the support of our owners, and the ongoing loyalty of our customers as we lead ESPO to new heights.

**J. Doherty**
Director

# Explanatory Foreword

## Introduction

**The published accounts of the Eastern Shires Purchasing Organisation (ESPO) are presented in this booklet.**

### About ESPO

ESPO is a Joint Committee set up under Section 102 of the 1972 Local Government Act. The member authorities at 31 March 2016 were Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

ESPO's main objective is the provision of a professional, comprehensive, value for money purchasing, contracting and supplies service for member authorities and other public bodies 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 surplus which accrues is 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 2015/2016

Despite a difficult trading environment ESPO has achieved a record surplus. This allows ESPO to continue investing in low prices, excellent service and high quality procurement expertise.

Tight control has been maintained over spending both on staff and operating expenses, and this has resulted in a net surplus in the management accounts (as shown in Note 23 to this Statement of Accounts) of £3.3M. This enables the announcement of a £2.4M dividend distribution to members for 2015/2016.

### Future Prospects

In order to mitigate the possible adverse effects of Local Authority spending constraints on future sales volumes ESPO continues to market its goods and services to a broad public sector audience within and beyond its member areas. This strategy supported the successful performance in 2015/2016 and will be continued in line with ESPO's four year strategy and the medium term financial plan.

### ESPO's Accounts

The following accounting statements represent ESPO's accounts for the 2015/2016 financial year and have been prepared on a going concern basis. The statements and notes are presented in a way that is intended to meet the common needs of most users with the objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

### Movement in Reserves Statement:

This statement shows the movement in the year on the different reserves held by the consortium, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authorities services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required to be charged to the General Fund Balance. The Net Increase/Decrease before transfers to earmarked reserves line shows the Statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the consortium.

### Comprehensive Income and Expenditure Statement:

This statement shows the accounting cost during the year of providing services in accordance with generally accepted accounting practices. It is fundamental to the understanding of the consortium's activities in that it summarises trading income and expenditure for the year ending 31 March 2016 of all functions for which ESPO is responsible.

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

## Balance Sheet:

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the consortium. The net assets of the consortium (assets less liabilities) are matched by the reserves held by the consortium. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the consortium may use to provide services, subject to the need to maintain a prudent level of reserves. The second category of reserves is those that the consortium is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

## Cash Flow Statement:

This Cash Flow Statement shows the changes in cash and cash equivalents of the consortium during the reporting period. The Statement shows how the consortium generates and uses cash and cash equivalents as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the consortium are funded from the receipts for services provided by the consortium. Investing activities represent cash outflows that have been made for resources which are intended to contribute to the consortium's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the consortium.

## Authorisation of Accounts:

The Statement of Accounts presents a true and fair view of the financial position of the organisation at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

## Date of Authorisation:

The accounts were authorised for issue on 31 May 2016.

**J. Doherty**
Director of ESPO
27 September 2016

**C. Tambini**
Consortium Treasurer
27 September 2016

# 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 Finance of Leicestershire County Council who is the Consortium Treasurer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

These accounts were approved at a meeting of the consortium Management Committee on 27 September 2016.

**Councillor I. Monson**
Chairman, ESPO Management Committee
27 September 2016

# 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 2015/16.

In preparing this Statement of Accounts for the year ended 31 March 2016, 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 Code of Practice.

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.
- The Statement of Accounts give a true and fair view of the financial position of ESPO at the reporting date and of its expenditure and income for the year ended 31 March 2016.

**C. Tambini**
Director of Finance of Leicestershire County Council
(Consortium Treasurer of ESPO)

## Movement in Reserves Statement
## For the year ended 31 March 2016

| | General fund balance | Earmarked projects reserves | Earmarked repairs and renewals reserve | Earmarked property maintenance reserve | Strategic review implementation | Total usable reserves | Unusable reserves | Total reserves | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | |
| **Balance at 31 March 2014 carried forward** | **3,329** | **728** | **2,865** | **1,475** | **400** | **8,797** | **2,123** | **10,920** | |
| **Movement in reserves during 2014/15:** | | | | | | | | | |
| Surplus on provision of services | 1,264 | – | – | – | – | 1,264 | – | 1,264 | |
| Other comprehensive income and expenditure (Surplus on revaluation of property) | – | – | – | – | – | – | 592 | 592 | |
| Total comprehensive income and expenditure | 1,264 | – | – | – | – | 1,264 | 592 | 1,856 | |
| Adjustments between the accounting basis and funding basis under regulations | (274) | (80) | – | – | – | (354) | 354 | – | 6 |
| Net increase/decrease before transfers to earmarked reserves | 990 | (80) | – | – | – | 910 | 946 | 1,856 | |
| Transfers to/from earmarked reserves | (683) | (226) | 545 | 364 | – | – | – | – | 7 |
| Increase/decrease in 2014/15 | 307 | (306) | 545 | 364 | – | 910 | 946 | 1,856 | |
| **Balance at 31 March 2015 carried forward** | **3,636** | **422** | **3,410** | **1,839** | **400** | **9,707** | **3,068** | **12,775** | |
| **Movement in reserves during 2015/16:** | | | | | | | | | |
| Surplus on provision of services | 1,081 | – | – | – | – | 1,081 | – | 1,081 | |
| Other comprehensive income and expenditure (Surplus on revaluation of property) | – | – | – | – | – | – | 599 | 599 | |
| Total comprehensive income and expenditure | 1,081 | – | – | – | – | 1,081 | 599 | 1,680 | |
| Adjustments between the accounting basis and funding basis under regulations | (225) | (156) | (369) | – | – | (750) | 750 | – | 6 |
| Net increase/decrease before transfers to earmarked reserves | 856 | (156) | (369) | – | – | 331 | 1,349 | 1,680 | |
| Transfers to/from earmarked reserves | (267) | (295) | 160 | 402 | – | – | – | – | 7 |
| Increase/(Decrease) in 2015/16 | 589 | (451) | (209) | 402 | – | 331 | 1,349 | 1,680 | |
| **Balance at 31 March 2016 carried forward** | **4,225** | **(29)** | **3,201** | **2,241** | **400** | **10,038** | **4,417** | **14,455** | |

## Comprehensive Income and Expenditure Statement

### For the year ended 31 March 2016

| | 2014/15 | | | 2015/16 | | | |
|---|---|---|---|---|---|---|---|
| | Gross expenditure | Gross income | Net (income) expenditure | Gross expenditure | Gross income | Net (income) expenditure | Notes |
| | £000 | £000 | £000 | £000 | £000 | £000 | |
| Central stores | 32,903 | (44,659) | (11,756) | 30,970 | (42,819) | (11,849) | |
| Other customer and client receipts | 40,502 | (48,770) | (8,268) | 37,062 | (45,644) | (8,582) | |
| Total | 73,405 | (93,429) | (20,024) | 68,032 | (88,463) | (20,431) | |
| Employees | 11,306 | – | 11,306 | 11,045 | – | 11,045 | 24<br>30 |
| Other employee expenses | 263 | – | 263 | 146 | – | 146 | |
| Premises | 651 | – | 651 | 857 | – | 857 | |
| Transport | 1,949 | – | 1,949 | 1,825 | – | 1,825 | |
| Equipment | 1,456 | – | 1,456 | 1,504 | – | 1,504 | |
| Office expenses | 281 | – | 281 | 256 | – | 256 | |
| Other expenses | 907 | – | 908 | 895 | – | 895 | |
| Support service charges | 147 | – | 147 | 171 | – | 171 | |
| **Net cost of services** | **90,365** | **(93,429)** | **(3,063)** | **84,731** | **(88,463)** | **(3,732)** | |
| Other operating expenditure | 1,457 | (10) | 1,447 | 2,358 | (24) | 2,334 | 8 |
| Financing and investment income and expenditure | 378 | (26) | 352 | 356 | (39) | 317 | 9 |
| **Surplus on provision of services** | **92,200** | **(93,465)** | **(1,264)** | **87,445** | **(88,526)** | **(1,081)** | |
| Surplus or deficit on revaluation of property, plant and equipment assets | | | (592) | | | (599) | 10 |
| **Other comprehensive income and expenditure** | | | **(592)** | | | **(599)** | |
| **Total comprehensive income and expenditure** | | | **(1,856)** | | | **(1,680)** | |

## Balance Sheet
### As at 31 March 2016

| | 31 March 2015 £000 | 31 March 2016 £000 | Note |
|---|---|---|---|
| Property, Plant and Equipment | 11,002 | 11,802 | 10 |
| Intangible Assets | 165 | 138 | 11 |
| **Long Term Assets** | **11,167** | **11,940** | |
| Inventories: Central Stores Stocks | 5,392 | 4,534 | 13 |
| Short Term Debtors | 8,114 | 7,173 | 14 |
| Cash and Cash Equivalents | 9,773 | 12,097 | 15 |
| **Current Assets** | **23,279** | **23,804** | |
| Short Term Borrowing | (724) | (959) | 12 |
| Short Term Creditors | (11,359) | (10,294) | 12,16 |
| Other Current Liabilities | (1,944) | (2,981) | 16 |
| **Current Liabilities** | **(14,027)** | **(14,234)** | |
| Long Term Borrowing | (7,500) | (7,000) | 12,32 |
| Other Long Term Liabilities | (143) | (55) | 12 |
| **Long Term Liabilities** | **(7,643)** | **(7,055)** | |
| **Net Assets** | **12,775** | **14,455** | |
| Usable Reserves | 9,707 | 10,038 | 17 |
| Unusable Reserves | 3,068 | 4,417 | 18 |
| **Total Reserves** | **12,775** | **14,455** | |

The notes on pages 13 to 39 form part of the Statement of Accounts.

## Cash Flow Statement
### For the year ended 31 March 2016

| | 2014/15 £000 | 2015/16 £000 | Note |
|---|---|---|---|
| Net Surplus on the provision of services | (1,264) | (1,081) | |
| Adjustments on provision of services for non-cash movements | (2,306) | (3,894) | 19 |
| Adjustments for items included in the net surplus on the provision of services that are Investing and Financing activities | (343) | (294) | 19 |
| Net cash flows adjustments to operating activities | 1,857 | 1,774 | 20 |
| Total net cash flow from operating activities | (2,056) | (3,495) | |
| Investing Activities | 147 | 543 | 21 |
| Financing Activities | 633 | 628 | 22 |
| Net increase / decrease in cash and cash equivalents | (1,276) | (2,324) | |
| Cash and cash equivalents at the beginning of the reporting year | 8,497 | 9,773 | 15 |
| Cash and cash equivalents at the end of the reporting year | 9,773 | 12,097 | 15 |

# Notes to the Accounts

## 1. Accounting Policies

### a. Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which give a true and fair view of the financial position and performance and cash flows of the organisation. The Statement of Accounts are prepared with due regard to the following:

- Understandability – Allowing the stakeholder to interpret the financial position of the organisation.
- Relevance – Providing relevant financial information which aid user's to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations.
- Materiality - An item of information is material to the Statement of Accounts if its misstatement or omission might reasonably be expected to influence assessment of the organisation.
- Reliability - Providing financial information that rests on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user that it has that representational quality, is free from material error, is neutral and which has been prudently prepared.
- Comparability – The Statement of Accounts are consistent and are comparable with prior years.

The Statement of Accounts, other than the Cash Flow Statement have been prepared on an accruals basis, the effect of transactions and other events are recognised when they occur and they are recorded in the accounting records and reported in the accounts in the periods to which they relate.

The Statement of Accounts have also been prepared on the assumption that Eastern Shires Purchasing Organisation will continue in operational existence into the foreseeable future and the accounting policies have been consistently applied.

### b. General Principles

The Statement of Accounts summarises ESPO's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. ESPO prepares an annual Statement of Accounts by the Accounts and Audit Regulations 2015 as best practice, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS) and statutory guidance as detailed in the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The purpose of this statement is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the organisation's accounts.

### c. Accruals of Income and Expenditure

The organisation's trading activity is accounted for in the year that it takes place and not when cash payments are made or received. In particular:

Revenue from the sales of goods is recognised when ESPO transfers the significant risks and rewards of ownership to the purchaser and it is likely that economic benefits associated with the transaction will flow to ESPO.

Revenue from the provision of services is recognised when ESPO can measure reliably the percentage of completion of the transaction and it is probable that economic benefits associated with the transaction will flow to ESPO.

Rebates are recognised where they can be reliably measured and agreed with the supplier and are retrospective. Cash is accounted for in the period it is received.

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are posted to the relevant service revenue account unless they represent capital receipts or capital expenditure.

### d. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

# Notes to the Accounts

## *1. Accounting policies (continued)*

### e. Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the note to the accounts, depending on how significant the items are to an understanding of ESPO's financial performance.

### f. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current or future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events or conditions on the organisation's financial position or financial performance. When a change is made it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy has always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### g. Charges to Revenue for Non-Current Assets

For statutory accounting purposes, services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are accumulated revaluation gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets

For the determination of its income requirements, ESPO is not required to include depreciation, revaluation and impairment losses or amortisation. For management accounting purposes, these are replaced by revenue contributions to the Earmarked Repairs and Renewals Reserve and Earmarked Property Maintenance Reserve for the replacement of non current and intangible fixed assets.

### h. Employee Benefits

#### Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid annual sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the organisation. An accrual is made for the cost of holiday entitlement (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end which employees carry forward into the next financial year. The accrual is made at the wages or salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### The Local Government Pension Scheme

In accordance with the International Accounting Standard 19 – Employee Benefits (IAS 19), 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 2015/16 as staff are employees of Leicestershire County Council in the council's role as Servicing Authority for the organisation and no separate apportionment is made of pension scheme assets and liabilities in respect of ESPO staff.

#### Discretionary Awards

ESPO has restricted powers to make discretionary awards of retirement benefits in the event of early retirement. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### i. Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## *1. Accounting policies (continued)*

### j. Financial Instruments

**Financial Liabilities**

Financial liabilities are recognised on the balance sheet when ESPO becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that ESPO has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

**Financial Assets**

ESPO possesses only one type of financial asset - 'Loans and Receivables.' These are assets that have fixed or determinable payments but are not quoted in an active market.

Loans and Receivables are recognised on the Balance Sheet when ESPO becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest received are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument.

For most of the loans that ESPO has, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest); and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the assets original interest rate.

Any gains or losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### k. Classification of Assets and Liabilities

(i) Assets are classified as current where the following circumstances apply:

- ESPO expects to realise the asset or intends to sell or consume it in its normal operating cycle,
- ESPO holds the asset primarily for the purpose of trading,
- ESPO expects to realise the asset within 12 months after the reporting period,
- The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle liabilities for at least 12 months after the reporting period.

All other assets are classified as long term.

(ii) Liabilities are classified as current where the following circumstances apply:

- ESPO expects to settle the liability in its normal operating cycle,
- ESPO holds the liability primarily for the purpose of trading,
- The liability is due for settlement within 12 months after the reporting period,
- ESPO does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as long term.

### l. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by ESPO as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the organisation.

ESPO has no internally generated intangible assets. Any future expenditure on such assets will be capitalised where it can be measured reliably as attributable to the asset and will be restricted to the development phase.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the organisation's goods or services.

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of the assets held by ESPO can be determined by reference to an active market. In practice no intangible assets held by ESPO meet this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

# Notes to the Accounts

## *1. Accounting policies (continued)*
## *l. Intangible Assets (continued)*

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains or losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### m. Inventories

Inventories are included in the Balance Sheet at the lower of cost or net realisable value. Where the inventory is deemed to be obsolete the item is then written off. The cost of inventories is assigned using the weighted average costing formula. ESPO inventories are held as stores stocks at Grove Park Enderby for resale.

### n. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where the lease covers both land and buildings, the land and buildings elements are considered separately for classification.

#### Finance Leases

Property, plant and equipment held under finance leases is recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the leases inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Any initial direct costs of this organisation are added to the carrying amount of the asset. Premiums paid on entry into the lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the organisation at the end of the lease).

A prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from the use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### o. Property, Plant and Equipment

Assets that have a physical substance and are held for use in the supply of goods or services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the purchase or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to ESPO and the costs of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The minimum purchase value for recognition as a non-current asset is £5,000. Purchases of plant and equipment below this value are charged to revenue in the year of purchase.

#### Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition for it to be capable of operating in the manner intended by management

ESPO does not capitalise borrowing costs incurred whilst assets are under construction. All ESPO Property, Plant and equipment has been purchased and were not subject to exchanges or donations.

Assets are carried in the Balance Sheet at fair value, determined as the amount that would be paid for the assets in its existing use. Where non property assets that have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

## *1. Accounting policies (continued)*
## *o. Property, Plant and Equipment (continued)*

The warehouse and offices premises at Grove Park are included at fair value and are revalued regularly to ensure that the carrying amount is not materially different from their fair value at the year end. Various Chartered Surveyors in the Property Services Division of Leicestershire County Council's Resources Department carry out the valuation. The current property value used in the 2015/16 accounts is based on a certificate issued by the Council's Head of Property Services Division as at 31 March 2016. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, except that gains may be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified they are accounted for by:

- Where there is a balance of revaluation gain for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount at the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall

Where impairment is identified, they are accounted for by:

- Where there is a balance of revaluation gains for assets in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided on all Property, Plant and Equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made of assets without a determinable finite life (ie freehold land) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight line allocation over the useful life of the value of each class of asset in the balance sheet, as advised by a suitably qualified officer.

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on the assets and the depreciation that would have been chargeable based on their historical costs being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### Disposals and non-current assets held for sale

No assets were identified as available for sale assets at the date of the balance sheet or in the prior accounting year.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal).

## p. Provisions, Contingent Liabilities and Contingent Assets

### Provisions

Provisions are made where an event has taken place that gives the organisation a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. for instance, ESPO may be involved in a court case that could eventually result in the making of a settlement or a payment of compensation.

Provisions may be charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that ESPO becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

# Notes to the Accounts

*1. Accounting policies (continued)*

*p. Provisions, Contingent Liabilities and Contingent Assets (continued)*

When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated in made), the provision is reversed and credited back to the relevant service.

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives ESPO a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the organisation. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives ESPO a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the organisation.

### q. Reserves

ESPO sets aside specific amounts as reserves for future policy purposes or to cover contingencies. The reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When Expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement.

Certain reserves are retained to manage the accounting processes for non-current assets, financial instruments, and employee benefits and do not represent resources for the organisation – these reserves are explained in the relevant policies.

### r. VAT and Climate Change Levy (CCL)

VAT incorporated to the Comprehensive Income and Expenditure Account is limited to irrecoverable sums.

Income excludes any amounts related to CCL that, as a Deemed Utility, ESPO collects from its customers on behalf of HM Revenue and Customs and all CCL collected is payable to them.

## 2. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- The Annual Improvements Cycle to IFRSs (2012 – 2014 Cycle) involves minor improvements and updates to IFRS 5, Discontinued Operations and Assets Held for Sale, IFRS 11 Joint Arrangements, IFRS 7 Financial instruments and IAS 34 Interim Reporting to provide further clarity on disclosure requirements. These amendments are minor and are not expected to have a material impact on the 2015/16 Statement of Accounts.
- Amendment to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions) to provide further clarity on disclosure. These amendments will not have a material effect on the 2015/16 Statement of Accounts.
- Amendment to IAS 16 Property, Plant and Equipment to define acceptable methods of depreciation and amortisation. The Authority operates accounting policies for non-current assets that are compliant with the requirements of IAS 16. These amendments will not have a material effect on the 2015/16 Statement of Accounts.
- Amendment to IAS 1 Presentation of the Financial Statements introduces changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and a new Expenditure and Funding Analysis. This is as a result of the 'Telling the Story' review of the presentation of Local Authority Statement of Accounts by the International Accounting Standards Board (IASB). Although these changes have no impact on the 2015/16 Statement of Accounts, in 2016/17 the comparator 2015/16 Statement of Accounts must reflect the new formats and reporting requirement.

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the organisation has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- ESPO's premises at Grove Park, Enderby have been subject to a revaluation as at 31 March 2016 by the Property Department of Leicestershire County Council (the organisation's servicing authority). The resulting increase in the fair value of £599,000 is reflected in the accounts.

## 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by ESPO about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.

However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the organisation's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainty | Effect if Actual Results differ from Assumptions |
|---|---|---|
| **Property, Plant and Equipment** | Assets are depreciated over useful lives that are dependent upon assumptions of business requirements and upkeep expenditure on individual assets | If the useful lives of assets reduces depreciation increases and the carrying amount of the asset falls.<br>It is estimated that the annual depreciation charge for the premises would increase by £1,500 for every year that useful lives had to be reduced. |
| **Debtors** | At 31 March 2016, ESPO had a balance of sales ledger debtors of £5,715k. A review of overdue debts has identified that impairment for doubtful debts of £30,000 was appropriate in relation to amounts due from commercial organisations. However, it is not certain that such an allowance will be sufficient. | If an additional 1% of customers become insolvent, the amount of the impairment for doubtful debts would require an additional £57,000 to be set aside as an allowance. |
| **Stocks** | Stocks of catalogue products are held in anticipation of sales to customers. The catalogue is re-issued annually and products may be added or deleted. Stocks held at 31 March 2016 in excess of one year sales may not be included in subsequent catalogues. The write down in value of stocks held in excess on one year amounted to £195,000. This value is based on an estimate of sales over the next 12 month period. However, it is not certain that sales forecasts are accurate; that the products will not be included in the next catalogue and that the write down is sufficient or excessive. | If 10% of the products for which excess stocks have been identified are included in the catalogue for 2015/16, the resulting reduction in stock write down would be £19,500. |
| **Reserves** | There is an uncertainty to the amount of reserves created as the amounts are based on estimates. | The position is regularly reviewed. |

## 5. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue on 31 May 2016. Events taking place after this date are not reflected in the accounts or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the accounts and notes have been adjusted in all material respects to reflect the impact of this information. There are no post balance sheet events.

# Notes to the Accounts

## 6. Adjustments between the Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by ESPO in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the organisation to meet future capital and revenue expenditure.

**2015/16**

| | Usable Reserves | | | | | | |
|---|---|---|---|---|---|---|---|
| | General Fund Balance | Earmarked Projects Reserves | Earmarked Repairs and Renewals Reserve | Earmarked Property Maintenance Reserve | Strategic Review Implementation | **Total Movement in Usable Reserves** | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | **£000** | £000 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | | | |
| Charges for depreciation and impairment of non current assets | 320 | – | – | – | – | **320** | (320) |
| Amortisation of intangible assets | 73 | – | – | – | – | **73** | (73) |
| Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 38 | – | – | – | – | **38** | (38) |
| Gain/loss on disposal of non current assets | (24) | – | – | – | – | **(24)** | 24 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | | | |
| Statutory provision for financing of capital investment (Grove Park) | (500) | – | – | – | – | **(500)** | 500 |
| Statutory provision for financing leased capital investment | (122) | – | – | – | – | **(122)** | 122 |
| Use of General Fund to finance new capital expenditure | (18) | – | – | – | – | **(18)** | 18 |
| **Adjustments involving the Earmarked Reserves:** | | | | | | | |
| Use of reserves to finance new capital expenditure | – | (156) | (369) | – | – | **(525)** | 525 |
| **Adjustment involving the Accumulated Absences Account:** | | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 8 | – | – | – | – | **8** | (8) |
| **Total Adjustments** | **(225)** | **(156)** | **(369)** | **–** | **–** | **(750)** | **750** |

## *6. Adjustments between the Accounting Basis and Funding Basis under Regulations (continued)*

**2014/15 comparative figures**

| | Usable Reserves | | | | | | |
|---|---|---|---|---|---|---|---|
| | General Fund Balance | Earmarked Projects Reserves | Earmarked Repairs and Renewals Reserve | Earmarked Property Maintenance Reserve | Strategic Review Implementation | **Total Movement in Usable Reserves** | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | **£000** | £000 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement;** | | | | | | | |
| Charges for depreciation and impairment of non current assets | 275 | – | – | – | – | **275** | (275) |
| Amortisation of intangible assets | 81 | – | – | – | – | **81** | (81) |
| Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 51 | – | – | – | – | **51** | (51) |
| Gain/loss on disposal of non current assets | (10) | – | – | – | – | **(10)** | 10 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | | | |
| Statutory provision for financing of capital investment (Grove Park) | (500) | – | – | – | – | **(500)** | 500 |
| Statutory provision for financing leased capital investment | (122) | – | – | – | – | **(122)** | 122 |
| Use of General Fund to finance new capital expenditure | (41) | – | – | – | – | **(41)** | 41 |
| **Adjustments involving the Earmarked Reserves:** | | | | | | | |
| Use of reserves to finance new capital expenditure | – | (80) | – | – | – | **(80)** | 80 |
| **Adjustment involving the Accumulated Absences Account:** | | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (8) | – | – | – | – | **(8)** | 8 |
| **Total Adjustments** | **(274)** | **(80)** | **–** | **–** | **–** | **(354)** | **354** |

# Notes to the Accounts

## 7. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

| | Balance at 1 April 2015 | Transfers in 2015/16 | Capital Transfers out 2015/16 | Revenue Transfers out 2015/16 | Balance at 31 March 2016 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Earmarked Projects Reserve | 422 | 5 | (156) | (300) | (29) |
| Earmarked Repairs and Renewals Reserve | 3,410 | 210 | (368) | (50) | 3,202 |
| Earmarked Property Maintenance Reserve | 1,839 | 410 | – | (8) | 2,241 |
| Strategic Review Implementation | 400 | – | – | – | 400 |
| **Total** | **6,071** | **625** | **(524)** | **(358)** | **5,814** |

**2014/15 Comparative Figures**

| | Balance at 1 April 2014 | Transfers in 2014/15 | Capital Transfers out 2014/15 | Revenue Transfers out 2014/15 | Balance at 31 March 2015 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Earmarked Projects Reserve | 728 | 7 | (80) | (233) | 422 |
| Earmarked Repairs and Renewals Reserve | 2,865 | 574 | – | (29) | 3,410 |
| Earmarked Property Maintenance Reserve | 1,475 | 405 | – | (41) | 1,839 |
| Earmarked Pay Harmonisation | – | – | – | – | – |
| Earmarked Legal Claim | – | – | – | – | – |
| Strategic Review Implementation | 400 | – | – | – | 400 |
| **Total** | **5,468** | **986** | **(80)** | **(303)** | **6,071** |

## 8. Other Operating Expenditure

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| Dividend payable to member authorities | 1,457 | 2,358 |
| Gains on disposal of non current assets | (10) | (24) |
| **Total** | **1,447** | **2,334** |

## 9. Financing and Investment Income and Expenditure

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| Interest payable and similar charges | 378 | 356 |
| Interest receivable and other similar income | (26) | (39) |
| **Total** | **352** | **317** |

# 10. Property, Plant and Equipment

### Movements in Balances

| | Land and Buildings £000 | Vehicles, Plant and Equipment £000 | Total Property, Plant and Equipment £000 |
|---|---|---|---|
| **Movements in 2015/16** | | | |
| **Cost or Valuation:** | | | |
| At 1 April 2015 | 10,500 | 3,384 | 13,884 |
| Additions | – | 535 | 535 |
| Revaluation Increase recognised in the Revaluation Reserve | 7 | – | 7 |
| Revaluation Increase recognised in the Capital Adjustment Account | 493 | – | 493 |
| Derecognition – disposals | – | (264) | (264) |
| **At 31 March 2016** | **11,000** | **3,655** | **14,655** |
| **Accumulated Depreciation and Impairment** | | | |
| At 1 April 2015 | - | 2,882 | 2,882 |
| Depreciation charge | 99 | 222 | 321 |
| Impairment losses/(reversals) recognised in the Capital Adjustment Account | (99) | – | (99) |
| Derecognition – disposals | – | (251) | (251) |
| **At 31 March 2016** | **–** | **2,853** | **2,853** |
| **Net Book Value** | | | |
| **At 31 March 2016** | **11,000** | **802** | **11,802** |
| **At 31 March 2015** | **10,500** | **502** | **11,002** |
| **Comparative Movements in 2014/15** | | | |
| **Cost or Valuation:** | | | |
| At 1 April 2014 | 10,000 | 3,379 | 13,379 |
| Additions | – | 151 | 151 |
| Revaluation Increase recognised in the Revaluation Reserve | 7 | – | 7 |
| Revaluation Increase recognised in the Capital Adjustment Account | 493 | – | 493 |
| Derecognition – disposals | – | (146) | (146) |
| **At 31 March 2015** | **10,500** | **3,384** | **13,884** |
| **Accumulated Depreciation and Impairment** | | | |
| At 1 April 2014 | 92 | 2,712 | 2,804 |
| Depreciation charge | – | 275 | 275 |
| Impairment losses recognised in the Revaluation Reserve | (92) | – | (92) |
| Derecognition – disposals | – | (105) | (105) |
| **At 31 March 2015** | – | **2,882** | **2,882** |
| **Net Book Value:** | | | |
| **At 31 March 2015** | **10,500** | **502** | **11,002** |
| **At 31 March 2014** | **9,908** | **667** | **10,575** |

# Notes to the Accounts

## *10. Property, Plant and Equipment (continued)*

### Depreciation

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

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

### Capital Commitments

At 31 March 2016, there were no contractual commitments in 2016/17 for the acquisition of tangible or intangible assets.

### Revaluations

ESPO undertakes an annual revaluation programme to ensure that the value of the premises at Grove Park, Enderby is correctly measured at fair value. The valuation was carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

| | Land and Buildings £000 | Vehicles, Plant and Equipment £000 | Total Property, Plant and Equipment £000 |
|---|---|---|---|
| Historical cost | – | 3,655 | 3,655 |
| Valued at fair value at 31 March 2016 | 11,000 | – | 11,000 |
| **Total Cost or Valuation** | **11,000** | **3,655** | **14,655** |

## 11. Intangible Assets

ESPO accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets only include purchased licences.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the organisation. The useful life assigned to all major software used by ESPO is 5 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £73,115 charged to revenue in 2015/16 was charged as a service overhead cost under the heading "Equipment" in the Comprehensive Income and Expenditure Statement.

The movement on Intangible Asset balances during the year is as follows:

| | 31/03/2015 Purchased Software £000 | 31/03/2016 Purchased Software £000 |
|---|---|---|
| Balance at start of year: | | |
| • Gross carrying amount | 602 | 648 |
| • Accumulated amortisation | (402) | (483) |
| Net carrying amount at start of year | 200 | 165 |
| Additions – Purchases | 46 | 46 |
| Amortisation for the year | (81) | (73) |
| **Net carrying amount at end of year** | **165** | **138** |
| Comprising: | | |
| • Gross carrying amount | 648 | 694 |
| • Accumulated amortisation | (483) | (556) |
| | **165** | **138** |

# 12. Financial Instruments

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

| | Long-Term | | Current | |
|---|---|---|---|---|
| | 31 March 2015 £000 | 31 March 2016 £000 | 31 March 2015 £000 | 31 March 2016 £000 |
| **Loans and Receivables:** | | | | |
| Financial assets carried at contract amounts including Cash and Cash Equivalents | – | – | 17,887 | 19,270 |
| **Total Receivables** | **–** | **–** | **17,887** | **19,270** |
| **Borrowings:** | | | | |
| Financial Liabilities at amortised cost | 7,500 | 7,000 | 724 | 959 |
| **Total Borrowings** | **7,500** | **7,000** | **724** | **959** |
| **Other Long Term Liabilities:** | | | | |
| Finance Lease liabilities | 143 | 55 | – | – |
| **Total other long term liabilities** | **143** | **55** | **–** | **–** |
| **Other Short Term financial Liabilities:** | | | | |
| Financial liabilities carried at contract amounts | – | – | 12,899 | 12,812 |
| **Total Short term Liabilities** | **–** | **–** | **12,899** | **12,812** |

### Income, Expense, Gains and Losses

The gains and losses recognised in the Consolidated Income and Expenditure Account in relation to financial instruments are made up as follows:

| | 2014/15 | | 2015/16 | |
|---|---|---|---|---|
| | Financial Liabilities Measured at amortised cost £000 | Financial Assets Loans and Receivables £000 | Financial Liabilities Measured at amortised cost £000 | Financial Assets Loans and Receivables £000 |
| Interest expense payable on long term loan | (357) | – | (339) | – |
| Bank interest payable on leased assets loans | (20) | – | (17) | – |
| Bank and short term investment interest receivable | – | 26 | – | 39 |
| Net (loss)/gain for the year | (378) | 26 | (356) | 39 |

# Notes to the Accounts

## *12. Financial Instruments (continued)*

**Fair Values of assets and Liabilities**
Financial liabilities and financial assets represented by loans and receivables and long term creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rate at 31 March 2016 of 3.12% for loans from Leicestershire County Council based on equivalent rates for loans from the PWLB and a rate of 7.6% for equipment loans based on equivalent commercial rates.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| | 31 March 2015 | | 31 March 2016 | |
|---|---|---|---|---|
| | Carry Amount £000 | Fair Value £000 | Carry Amount £000 | Fair Value £000 |
| Financial Liabilities – Premises loan from Leicestershire County Council | 8,137 | 9,327 | 7,630 | 8,832 |
| Other Long-term creditors | 259 | 259 | 326 | 326 |

Where the fair value is less than the carrying amount, this arises because the organisation's borrowings include a number of fixed rate loans where the interest payable is lower than the rates available for similar loans at the Balance Sheet date.

**Loans and Receivables**
The fair value of trade and other receivables is taken to be the invoiced or billed amount which is the same as the carrying amount on the Balance Sheet.

## 13. Inventories

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

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| **Balance at start of year** | **5,167** | **5,392** |
| Purchases | 32,903 | 30,970 |
| Recognised as an expense in the year | (32,602) | (31,633) |
| Written off balances | (76) | (195) |
| **Balance at year end** | **5,392** | **4,534** |

## 14. Short Term Debtors

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

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| **Current Debtors:** | | |
| Reserved Debtors | 1,687 | 1,488 |
| Sundry Debtors | 6,475 | 5,715 |
| Less provision for bad debts | (48) | (30) |
| **Total** | **8,114** | **7,173** |
| **Analysis of Bad debts Provision:** | | |
| Opening Balance as at 1 April | (135) | (48) |
| I and E Charge for the Year | 2 | 23 |
| Less Bad Debts adjustment | 85 | (5) |
| **Closing Balance as at 31 March** | **(48)** | **(30)** |

## 15. Cash and Cash Equivalents

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| Cash held by ESPO | 1 | - |
| Bank current accounts | 442 | 561 |
| Bank short-term deposit account | 9,330 | 11,536 |
| **Total Cash and Cash Equivalents** | **9,773** | **12,097** |

## 16. Short-Term Creditors and Other Current Liabilities

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| **Supplier balances:** | | |
| • Other local authorities | 396 | 253 |
| • Other entities and individuals: | 7,452 | 6,388 |
| Reserved creditors and suspense accounts | 3,330 | 3,560 |
| Taxes and duties | 404 | 461 |
| Member authority dividends | 1,457 | 2,358 |
| Payroll deductions | 264 | 255 |
| **Total** | **13,303** | **13,275** |

## 17. Usable Reserves

Movements in ESPO's usable reserves are detailed in the Movement in Reserves Statement and in Notes 6 and 7 above.

ESPO reserves have been established to meet operating deficits and to finance major one-off expenditure and replacement of assets. The Usable Reserves held by ESPO at 31 March 2016 are as follows:

(i) General Fund:
The reserve provides working capital to finance ESPO's trading activities. Standard practice is that, on acceptance of the annual accounts by member authorities, the annual surplus is allocated to this account after making deductions of any amounts transferred to Earmarked Repairs and Renewals and Property 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 of the general fund determined by Members was set at 5% of turnover.

(ii) Earmarked Projects:
Amounts authorised by member authorities to be allocated from annual surpluses to provide for the funding of major capital expenditure and development projects.

(iii) Repairs and Renewals:
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) Property Maintenance:
This reserve provides funding for major building repairs, for which ESPO as beneficial owner is responsible.

(v) Strategic Review Implementation:
This reserve provides funding for the implementation of recommendations following a strategic review of the organisation undertaken by Deloitte and agreed by ESPO Management Committee.

## 18. Unusable Reserves

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| Revaluation Reserve | 106 | 113 |
| Capital Adjustment Account | 3,063 | 4,412 |
| Accumulated Absences Account | (100) | (108) |
| **Total** | **3,069** | **4,417** |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by ESPO arising from increases in the value of its property. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- The asset is disposed of and the gains realised.

The Reserve contains only gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| Balance at 1 April | 99 | 106 |
| Difference between the fair value depreciation and historical cost depreciation: | - | - |
| Revaluation gains on Property, Plant and Equipment | 7 | 7 |
| **Balance at 31 March** | **106** | **113** |

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provision. The account is debited with the cost of acquisitions, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The accrual is credited with the amounts set aside by the organisation as finance for the costs of acquisition, construction and enhancement.

The Account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

# Notes to the Accounts

## *18. Unusable Reserves (continued)*

Note 6 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| **Capital Adjustment Account** | | |
| **Balance at 1 April** | **2,131** | **3,063** |
| **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| Charges for depreciation of non-current assets | (275) | (320) |
| Net Revaluation gains and (Impairment losses) on Property, Plant and Equipment | 585 | 592 |
| Amortisation of intangible assets | (81) | (73) |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (40) | (14) |
| | **189** | **185** |
| **Net written out of the cost of non-current assets consumed in the year** | | |
| **Capital financing applied in the year:** | | |
| Use of Major Project Earmarked Reserve to finance new capital expenditure | 80 | 156 |
| Use of the Repairs and Renewals Earmarked Reserve to finance new capital expenditure | – | 369 |
| Statutory provision for the financing of capital investment charged against the General Fund | 622 | 621 |
| Capital Expenditure charged against the General Fund | 41 | 18 |
| | 743 | 1,164 |
| **Balance at 31 March** | **3,063** | **4,412** |

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March.

Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| **Balance at 1 April** | **(108)** | **(100)** |
| Settlement or cancellation of accrual made at the end of the preceding year | 108 | 100 |
| Amounts accrued at the end of the current year | (100) | (108) |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 8 | (8) |
| **Balance at 31 March** | **(100)** | **(108)** |

## 19. Reconciliation of the Surplus on the Comprehensive Income and Expenditure Statement to Revenue Activities Cash flow

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| **Non cash Transactions:** | | |
| Depreciation of non-current assets | (356) | (394) |
| Movement on short-term accumulating compensated absences adjustments | 8 | (8) |
| | **(348)** | **(402)** |
| **Revenue items on an accruals basis:** | | |
| Increase / (decrease) in stocks | 226 | (859) |
| Decrease in debtors | (1,495) | (941) |
| Decrease in creditors | 1,153 | 796 |
| Increase in tax creditor | (393) | (58) |
| Increase in other current liabilities | (1,449) | (2,430) |
| | **(1,958)** | **(3,492)** |
| **Total adjustment to net surplus on the provision of services for non-cash movements** | **(2,306)** | **(3,894)** |
| **Adjustments for items included in the net surplus on the provision of services that are investing and financing activities:** | | |
| Interest payable (net) | (352) | (317) |
| Surplus on disposal of non-current assets | 9 | 23 |
| | **(343)** | **(294)** |

## 20. Cash Flow Statement – Adjustments to Operating Activities

The cash flows for operating activities include the following items:

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| Interest Received | (27) | (39) |
| Interest paid | 378 | 356 |
| Dividends paid | 1,506 | 1,457 |
| **Net cash flows from operating activities** | **1,857** | **1,774** |

## 21. Cash Flow Statement – Investing Activities

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| Purchase of Property, Plant and Equipment and intangible assets | 198 | 581 |
| Proceeds from the sale of property, plant and equipment and intangible assets. | (51) | (38) |
| **Net cash flows from investing activities** | **147** | **543** |

## 22. Cash Flow Statement – Financing Activities

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| Cash payments for the reduction of outstanding finance lease liabilities | 122 | 121 |
| Repayment of short and long-term borrowing | 511 | 507 |
| **Net cash flows from financing activities** | **633** | **628** |

## 23. Amounts Reported for Resource Allocation Decisions

The analysis of the income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Expenditure Reporting Code of Practice. However, decisions about resource allocation in 2015/16 were taken by ESPO's Leadership Team on the basis of financial reports analysed across its two main operating divisions. These reports are prepared on a different basis from the accounting policies used in the accounts. In particular:

- Charges are made in the Management Trading Accounts for the replacement of non-current plant and equipment and intangible assets based on the expected cost of replacement. A Renewals Reserve holds the accumulated charges and purchases of replacements are charged to this reserve.
- No charges are made in relation to depreciation of the Grove Park premises, or for revaluation gains or impairment losses (whereas depreciation on all non current and intangible assets, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged in the Comprehensive Income and Expenditure Statement).
- Repayments of the capital and interest elements of the premises loan and of finance leases are treated as a rental charges in the Management Trading Accounts (whereas the interest elements are included as Financing and Investment Expenditure in the Comprehensive Income and Expenditure Statement and the capital elements are included in the Movement in Reserve statement and identified in Note 6).
- Charges are made in the Management Trading Accounts for purchases of additional non current and intangible assets for which there are no amounts provided within Renewals or Earmarked Reserves (whereas these purchases are excluded from the Comprehensive Income and Expenditure Statement and are included in the Movement in Reserve statement and identified in Note 6).
- No charges are made in the Management Trading Accounts for revenue expenditure on major development projects where an earmarked reserve has been established and approved by the Management Committee (whereas such expenditure is included within the Comprehensive Income and Expenditure Statement and reversed out in the Movement in Reserve statement and identified in Note 7).
- No charges are made in the Management Trading Accounts for dividend payments to member authorities.

# Notes to the Accounts

## *23. Amounts Reported for Resource Allocation Decisions (continued)*

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

**Management Trading Account**

| | 2014/15 | | | 2015/16 | | |
|---|---|---|---|---|---|---|
| | Stores £000 | Central Purchasing £000 | **Total £000** | Stores £000 | Central Purchasing £000 | **Total £000** |
| Sales Income | (44,671) | (48,808) | **(93,479)** | (42,843) | (45,669) | **(88,512)** |
| Cost of Sales | 32,903 | 40,502 | **73,405** | 30,970 | 37,063 | **68,033** |
| Gross Margin on Sales | (11,768) | (8,305) | **(20,073)** | (11,873) | (8,606) | **(20,479)** |
| **Service Expenditure:** | | | | | | |
| Employees | 5,085 | 6,230 | **11,315** | 4,617 | 6,419 | **11,036** |
| Other Employee Expenses | 29 | 229 | **258** | 24 | 121 | **145** |
| Premises | 1,192 | 276 | **1,468** | 1,334 | 278 | **1,612** |
| Transport | 2,278 | 193 | **2,471** | 1,899 | 160 | **2,059** |
| Equipment | 486 | 618 | **1,104** | 345 | 611 | **956** |
| Office Expenses | 39 | 245 | **284** | 26 | 232 | **258** |
| Other Expenses | 11 | 852 | **863** | 14 | 881 | **895** |
| Support Service Charges | 70 | 77 | **147** | 70 | 101 | **171** |
| Total Expenditure | 9,190 | 8,720 | **17,910** | 8,329 | 8,803 | **17,132** |
| **Net Surplus** | **(2,578)** | **(415)** | **(2,163)** | **(3,544)** | **197** | **(3,347)** |

## *23. Amounts Reported for Resource Allocation Decisions (continued)*

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

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

| | 2014/15 | | | 2015/16 | | |
|---|---|---|---|---|---|---|
| | Stores £000 | Central Purchasing £000 | Total £000 | Stores £000 | Central Purchasing £000 | Total £000 |
| **Income as per ESPO Management Accounts** | (44,671) | (48,808) | **(93,479)** | (42,843) | (45,670) | **(88,513)** |
| Interest receivable included under Sales Income | – | 26 | 26 | – | 39 | 39 |
| Disposals of non current assets included under Sales Income | 12 | 39 | 51 | 23 | 15 | 38 |
| Interest credited to Earmarked Funds | (27) | – | (27) | (28) | – | (28) |
| **Gross Income as per the Comprehensive Income and Expenditure statement** | **(44,686)** | **(48,744)** | **(93,430)** | **(42,848)** | **(45,616)** | **(88,464)** |
| **Expenditure as per ESPO Management Accounts** | **42,093** | **49,223** | **91,316** | **39,299** | **45,866** | **85,165** |
| Capital elements of the premises loan repayments included under Premises | (400) | (100) | (500) | (400) | (100) | (500) |
| Capital elements of the leased assets repayments included under Transport | – | (119) | (119) | – | (120) | (120) |
| Capital elements of the leased assets repayments included under Office Expenses | – | (3) | (3) | – | (2) | (2) |
| Amounts transferred to Earmarked, Repairs and Renewals and Maintenance Reserves for future capital expenditure included under Equipment | (498) | (62) | (560) | (98) | (97) | (195) |
| Interest payable included under Other Expenses | (358) | (20) | (378) | (339) | (17) | (356) |
| Non current assets purchases included under Transport | – | – | – | – | – | – |
| Non current assets purchases included under Equipment | (13) | (28) | (41) | – | (18) | (18) |
| **Plus expenditure not included in Management Accounts. Included in the Comprehensive Income and Expenditure Statement:** | | | | | | |
| Depreciation of non current assets and amortisation of intangible assets included under Equipment | 271 | 85 | 356 | 298 | 95 | 393 |
| Compensated absences included under Employees | (4) | (4) | (8) | (1) | 9 | 8 |
| Earmarked Reserves revenue expenditure included under equipment | 15 | 288 | 303 | 195 | 162 | 357 |
| **Gross Expenditure as per the Comprehensive Income and Expenditure statement** | **41,107** | **49,259** | **90,366** | **38,954** | **45,778** | **84,732** |
| **Surplus on Net Cost of Services as per ESPO Statement of Accounts** | **(3,579)** | **515** | **(3,064)** | **(3,894)** | **162** | **(3,732)** |

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

# Notes to the Accounts

## 24. Officers' Remuneration

a) The following table sets out the remuneration disclosures for senior officers whose salary is less than £150,000 but equal or more than £50,000 per year who have the power to direct or control activities of the organisation:

| Postholder Information (Post Title) | Salary (inc fees and allowances) £ | Compensation Payments £ | Benefits in Kind (e.g. Car Allowances) £ | Total Remuneration excluding pension contributions £ | Employee Pension contributions £ | Total Remuneration including pension contributions £ |
|---|---|---|---|---|---|---|
| **2015/16** | | | | | | |
| Director | 127,689 | – | 1,745 | 129,434 | 27,198 | 156,632 |
| Deputy Director (& Chief Commercial officer) | 81,545 | – | 1,888 | 83,433 | 17,369 | 100,802 |
| Assistant Director (Finance & Governance) | 77,325 | – | – | 77,325 | 16,470 | 93,795 |
| Assistant Director (Sales and Marketing) | 53,836 | 4,446 | 3,237 | 61,519 | 11,467 | 72,986 |
| Assistant Director (Operations) | 77,325 | – | 3,479 | 80,804 | 16,470 | 97,274 |
| | **417,720** | **4,446** | **10,349** | **432,515** | **88,974** | **521,489** |

**Note:** Due to an organisational restructure the Assistant Director (Sales and Marketing) was made redundant on the 15th December 2015. The new Leadership Team consisted of the above Senior Officers.

## 24. Officers' Remuneration (continued)

| **2014/15 Comparatives** | Salary (inc fees and allowances) £ | Compensation Payments £ | Benefits in Kind (e.g. Car Allowances) £ | Total Remuneration excluding pension contributions £ | Employee Pension contributions £ | Total Remuneration including pension contributions £ |
|---|---|---|---|---|---|---|
| Director | 127,689 | – | – | 127,689 | 25,921 | 153,610 |
| Assistant Director (Procurement & Compliance | 77,891 | – | 2,020 | 79,911 | 15,812 | 95,723 |
| Assistant Director (Finance) | 76,076 | – | – | 76,076 | 15,444 | 91,520 |
| Assistant Director (Sales and Marketing) | 72,809 | – | 4,738 | 77,547 | 14,780 | 92,327 |
| Assistant Director (Operations) | 72,809 | – | 2,896 | 75,705 | 14,780 | 90,485 |
| Operations Manager | 49,145 | – | – | 49,145 | 9,976 | 59,121 |
| Trading Manager | 50,771 | – | – | 50,771 | 66,536 | 117,307 |
| Commercial Manager | 54,604 | – | – | 54,604 | 11,085 | 65,689 |
| Commercial Manager | 54,604 | – | 2,402 | 57,006 | 11,085 | 68,091 |
| | **636,398** | – | **12,056** | **648,454** | **185,419** | **833,873** |

b) The organisation's other employees whose remuneration, taxable expenses and severance (if applicable), was £50,000 or more are detailed below. This information does not include employer's pension contributions.

| | 2014/15 | 2015/16 | 2014/15 | 2015/16 |
|---|---|---|---|---|
| **Renumeration Band** | **Including Severance** | | **Excluding Severance** | |
| £50,000 - £54,999 | – | – | – | 2 |
| £55,000 - £59,999 | – | – | – | 1 |
| £60,000 - £64,999 | – | – | – | 1 |
| **Total** | **–** | **–** | **–** | **4** |

# Notes to the Accounts

## *24. Officers' Remuneration (continued)*

**Exit Packages**

The number of exit packages with the total cost per band and total cost of compulsory and other redundancies are set out in the table below:

| Exit Package Cost Band | Number of Compulsory Redundancies | | Number of Other Departures Agreed | | Total Number of Exit packages by Cost Band | | Total Cost of Packages in Each Cost Band | |
|---|---|---|---|---|---|---|---|---|
| | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 £000 | 2015/16 £000 |
| £0 - £20,000 | – | 1 | 3 | 2 | 3 | 3 | 28 | 21 |
| **Total** | **–** | **1** | **3** | **2** | **3** | **3** | **28** | **21** |

## 25. External Audit Costs

Eastern Shires Purchasing Organisation incurred the following audit fees:

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| Fees payable to external auditors with regard to external audit services. The external auditors are PricewaterhouseCoopers LLP. | 14 | 25 |

## 26. Related Parties

ESPO is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the organisation or to be controlled or influenced by ESPO. Disclosure of these transactions allows readers to assess the extent to which ESPO might be constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with ESPO.

**Members**

Members of the Management Committee have direct control over ESPO financial and operating policies. No payments are made by ESPO to any members of the Management Committee. During 2015/16 no members had an interest in any work or services commissioned by ESPO. Contracts were entered into in full compliance with the organisation's standing orders.

**Officers**

During 2015/16 no officers declared a pecuniary interest in any contractual or financial transactions.

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

**Debtors**

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 £1,686k as at 31 March 2016 (£1,882k as at 31 March 2015) and are included in 'Sundry Debtors' as detailed in note 14 to the Statement of Accounts. The amounts owing from each member authority are as follows:

**Analysis of Sundry Debtor Balances**

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| **Member Authorities:** | | |
| Cambridgeshire County Council | 309 | 213 |
| Leicestershire County Council | 443 | 262 |
| Lincolnshire County Council | 309 | 409 |
| Norfolk County Council | 434 | 412 |
| Peterborough City Council | 106 | 107 |
| Warwickshire County Council | 281 | 283 |
| **Total** | **1,882** | **1,686** |

## *26. Related Parties (continued)*

**Sales**
The value of sales to member authorities, including LEA schools, for services provided by ESPO are included within the value of Gross Income in the Consolidated Income and Expenditure Statement and amounted to £35,232k for 2015/16 (£38,122k for 2014/15). The following is a breakdown by individual member authority:

**Analysis of sales to member authorities**

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| **Member Authorities:** | | |
| Cambridgeshire County Council | 5,899 | 5,758 |
| Leicestershire County Council | 6,470 | 5,958 |
| Lincolnshire County Council | 7,581 | 6,784 |
| Norfolk County Council | 9,704 | 9,073 |
| Peterborough City Council | 2,247 | 2,083 |
| Warwickshire County Council | 6,221 | 5,576 |
| **Total** | **38,122** | **35,232** |

**Creditors**
Amount due to member authorities for services they provided to ESPO amounted to £253k as at 31 March 2016 (£396k at 31 March 2015) and are included within the value of 'Supplier Account Balances' as detailed in the Short-Term Creditors note to this Statement of Accounts.

**Analysis of Supplier Account Balances**

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| **Member Authorities:** | | |
| Leicestershire County Council | 380 | 234 |
| Cambridgeshire County Council | – | – |
| Warwickshire County Council | 16 | 19 |
| **Total** | **396** | **253** |

**Purchases**
The value of purchases from member authorities for services they provided to ESPO are included within the value of Gross Expenditure in the Consolidated Income and Expenditure Statement and amounted to £1,737k for 2015/16 (£1,972k for 2014/15).
The following is a breakdown by individual member authority:

**Analysis of purchases from member authorities**

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| **Member Authorities:** | | |
| Cambridgeshire County Council | 25 | 14 |
| Leicestershire County Council | 1,698 | 1,477 |
| Warwickshire County Council | 249 | 246 |
| **Total** | **1,972** | **1,737** |

## 27. Capital Expenditure and Capital Financing

ESPO finances the purchase of routine replacement non current and intangible assets from the Repairs and Renewals Reserve or the Property Maintenance Reserve.

Purchases of additional non current and intangible assets may be financed from Earmarked Reserves when these form part of development projects approved by the Management Committee. Other purchases of additional non current and intangible assets are financed from revenue.

**Financing of capital expenditure on non current and intangible assets**

| | 2014/15 | | 2015/16 | |
|---|---|---|---|---|
| | Intangibles £000 | Vehicles, Plant and Equipment £000 | Intangibles £000 | Vehicles, Plant and Equipment £000 |
| Financed from Revenue | 22 | 19 | – | 18 |
| Financed from Earmarked Reserves | 25 | 55 | 46 | 111 |
| Financed from Vehicles, Plant and Equipment Reserves | – | – | – | 369 |
| **Total** | **47** | **74** | **46** | **498** |

**Capital expenditure commitments**

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| The organisation had no commitments during 2015/16 for the purchase of non current assets in the following financial year, 2016/17. | – | – |

# Notes to the Accounts

## 28. Leases

### Finance Leases

The organisation has acquired its motor car fleet and selected office copiers under finance leases. Copiers below the minimum capital purchase value of £5,000 continue to be treated as operating leases.

The assets acquired under these finance leases are carried as Property, Plant and Equipment in the Balance Sheet at the following amounts:

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| Vehicles, Plant and Equipment | 283 | 227 |

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

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| **Finance lease liabilities (net present value of minimum lease payments):** | | |
| Current | – | – |
| Non current | 368 | 407 |
| Finance costs payable in future years | 47 | 50 |
| **Minimum lease payments** | **415** | **457** |

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

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|---|---|---|---|
| | 31 March 2015 £000 | 31 March 2016 £000 | 31 March 2015 £000 | 31 March 2016 £000 |
| Not later than one year | 136 | 122 | 120 | 111 |
| Later than one year and not later than five years | 279 | 335 | 248 | 296 |
| | **415** | **457** | **368** | **407** |

### Operating Leases

ESPO has acquired office copiers and food vendors by entering into operating leases, with a typical life of 5 years.

The future minimum lease payments due under non-cancellable leases in future years are:

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| Not later than one year | 4 | 21 |
| Later than one year and not later than 5 years | 11 | 30 |
| **Minimum lease payments** | **15** | **51** |

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

| | 2014/15 £000 | 2015/16 £000 |
|---|---|---|
| **Minimum lease payments** | **15** | **51** |

## 29. Impairment Losses

During this financial year ESPO has recognised a Revaluation Gain of £599k in relation to its premises at Grove Park, Enderby. The premises have been valued on a fair value basis of £11M by the Property Services Department of Leicestershire County Council at 31 March 2016. The organisation continues to utilise the premises as its operational headquarters, warehouse and distribution centre.

## 30. 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. A separate fund value is not identified for ESPO employees and therefore sufficient information is not available for this organisation to account for the plan as a defined benefit scheme.

Details of the Leicestershire County Council defined benefits pension fund are contained within the authority's annual Statement of Accounts which are available on line from www.leics.gov.uk. The latest fund actuarial valuation at 31 March 2013 identified that the funds assets were sufficient to meet approximately 72% of the liabilities accrued up to that date. Increases in employer's contribution rate that are required within the valuation will be phased in over a three year period commencing 1 April 2014. The contributions payable by ESPO will be 20.3% in 2014/15, 21.3% in 2015/16 and 22.3 in 2016/17.

*30. Pensions (continued)*

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 2015/16 ESPO paid an employer's contribution of £1,433k (2014/15 - £1,328k), into the Pension Fund, representing an average 21.3% of total pensionable pay.

In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2015/16 these amounted to £12k (2014/15 - £91k), representing 0.2% of pensionable pay.

## 31. Contingent Liabilities

There are no contingent liabilities.

## 32. Nature and Extent of Risks Arising from Financial Instruments

The organisation's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amount due to ESPO.
- Liquidity risk – the possibility that ESPO might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial losses might arise from changes in such measures as interest rates.

The organisation only generates income through its commercial activities therefore risk management focuses on the unpredictability of customer demand and on maintaining its reputation for service quality and value for money. The effective risk management of financial instruments is vital to ensure the necessary funding and resources are available to support these activities. Risk management is carried out by the Leadership 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.

The maximum exposure to credit risk in relation to ESPO's investments in banks and building societies is 100% of its investments, but this cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principle sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of ESPO's deposits but there was no evidence at 31 March 2016 that this was likely to crystallise.

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. As at the Balance Sheet date no customers' credit terms have been renegotiated that would otherwise be past due.

# Notes to the Accounts

## *32. Nature and Extent of Risks Arising from Financial Instruments (continued)*

### *Credit Risk (continued)*

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

| | Amount at 31 March 2016 £000 | Historical experience of default % | Historical experience adjusted for market conditions at 31 March 2016 % | Estimated maximum exposure to default and un-collectability 31 March 2016 £000 | Estimated maximum exposure at 31 March 2016 £000 |
|---|---|---|---|---|---|
| Bank Deposits | 561 | – | – | – | – |
| Investments (see Note 15) | 11,536 | – | – | – | – |
| Customers | 5,566 | 1.09 | 0.76 | 42.1 | 55.9 |
| | | | | 42.1 | 55.9 |

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's standard terms of trade are 30 days.

## *32. Nature and Extent of Risks Arising from Financial Instruments (continued)*

A total of £1,303k of the balance of £5,715k was overdue at 31 March 2016 and can be analysed as follows:

Aged Analysis of financial assets that are past due as at the reporting date but not impaired (Overdue debtors):

| | 31 March 2015 £000 | 31 March 2016 £000 |
|---|---|---|
| Less than one month overdue | 829 | 855 |
| Between one and three months | 388 | 365 |
| More than three months overdue | 212 | 83 |
| | **1,429** | **1,303** |

### Impairment of financial assets

A bad debt provision is established following a review of individual customers' debts as at the balance sheet date and a proportionate value of impairment is determined according to the individual circumstances including customers' legal status. Debts are usually considered 100% impaired when customers have entered into liquidation. A summary of the provision is included within Note 14 – Short Term Debtors.

### Liquidity Risk

In order to support seasonal trade variations ESPO has an informal treasury arrangement with Leicestershire County Council (its servicing authority) that provides ready access to liquid funds for short-term borrowing at market interest rates.

ESPO moved to new premises at Grove Park, Enderby, Leicestershire in February 2006. This property is owned by Leicestershire County Council on behalf of the organisation as a consequence of ESPO's status which does not permit the legal ownership of assets.

Leicestershire County Council financed the purchase with long term borrowing from the Public Works Loan Board which ESPO, as the beneficial owner of the property, has committed to recompense to the council in instalments that equal their repayments to the PWLB for the duration of the loan. The loan is subject to interest rates charged between 4.4% to 4.65% pa.

Maturity analysis of financial liabilities:

| | Total Long-Term Outstanding at 31 March 2015 £000 | Total Long -Term Outstanding at 31 March 2016 £000 |
|---|---|---|
| **Lender:** | | |
| Leicestershire County Council | 7,500 | 7,000 |
| **Analysis of Maturity of this loan:** | | |
| Between one and two years | 500 | 500 |
| Between two and five years | 1,500 | 1,500 |
| Between five and ten years | 2,500 | 2,500 |
| In ten years or more | 3,000 | 2,500 |

### Market Risks

### Interest Rate Risk

ESPO is exposed to interest rate risk in terms of its exposure to rate movements on its investments and short-term borrowings. The impact on the Income and Expenditure Account of rate changes on interest receivable and interest payable on such transactions is nominal in relation to ESPO turnover. For example, the effect of a 1% increase in rates would be an increase in income on investments of £117k. The effect of a 1% decrease would have the opposite effect. 1% has been used for this analysis as this reflects the maximum expected movements in market rates over the next 12 months.

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

### Foreign Exchange Risk

The organisation has no assets or liabilities denominated in foreign currencies as imports and exports are priced in sterling. Movements in exchange rates may impact on the sterling prices quoted by overseas suppliers although the extent of this influence is not calculable.

# Annual Governance Statement 2015/16

## 1. Scope of Responsibility

ESPO is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. ESPO also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, ESPO is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

ESPO has approved and adopted a code of corporate governance as best practice, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website and this statement explains how ESPO has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

## 2. The Purpose of the Governance Framework

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

The 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 2016 and up to the date of approval of the annual report and statement of accounts. ESPO's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework, within each principle we have identified the sources of assurance.

## PRINCIPLE A:

## Focusing on the purpose of ESPO, on outcomes for our stakeholders and creating and implementing a vision for the organisation.

**Under this principle, there is a requirement to:**

- Exercise strategic stewardship by developing and clearly communicating the organisation's purpose and vision and its intended outcome for stakeholders.
- Ensure that all stakeholders receive a high quality of a service.
- Ensure the organisation makes best use of resources and that all stakeholders receive excellent value for money.

| **Description of Governance Mechanisms:** Evidence and documents that demonstrate compliance / good practice | **Assurances received** | **Weaknesses identified:** Areas for improvement |
|---|---|---|
| • Business Strategy and supporting projects (delivery and strategic)<br>• Service/Business Plans supported by relevant strategies<br>• Communication Strategy<br>• Performance trends and reports on the progress of service delivery<br>• Formal complaints policy and procedures that inform positive service improvement<br>• Benchmarking is undertaken with competitors pricing<br>• Service Level Agreement in place with the Servicing Authority | • A strategy which sets out how efficiencies included within the MTFS will be achieved<br>• Outcomes are delivered through Assistant Director's plans and strategies which set out objectives and targets in relation to ESPO's priority outcomes<br>• Communication strategy that is based on a brand survey of our customers allowing us to provide a better service to our stakeholders<br>• Performance trends reported through balanced scorecard. Also trends identified in monthly and weekly financial reports<br>• Annual Report considered by members – supported by approved Medium Term Financial Strategy and Annual Statement of Accounts<br>• Industry benchmarking measures undertaken in some departments to determine value for money. For example, competitors' Annual reports are reviewed<br>• Regular Performance Development Reviews are undertaken throughout the organisation on a regular basis and are aligned to the ESPO strategy<br>• Regular briefings and communications are in place so that all staff are kept informed of key operational, department and corporate through the weekly staff update, Directors briefings, team meetings and the Employee Engagement group | |

# Annual Governance Statement 2015/16
*continued*

## PRINCIPLE B:

### Members and officers working together to achieve a common purpose with clearly defined functions and roles.

**Under this principle, there is a requirement of ESPO to:**

- Ensure effective stewardship throughout the organisation and be clear about member and officer functions and of the roles and responsibilities of the scrutiny function;
- Ensure a constructive working relationship exists between organisation members and officers and that the responsibilities of members and officers are carried out to a high standard;
- Ensure relationships between the organisation, its partners and the public are clear so that each knows what to expect of the other.

| **Description of Governance Mechanisms:** Evidence and documents that demonstrate compliance / good practice | **Assurances received** | **Weaknesses identified:** Areas for improvement |
|---|---|---|
| • Job descriptions for: Director, Consortium Secretary, Consortium Treasurer Head of Internal Audit Service, AD Finance.<br>• Member/Officer Protocol<br>• Constitution is regularly reviewed.<br>• Scheme of delegation, standing orders and financial regulations<br>• Effective Director and Chairman pairing<br>• Compliance with Role of Chief Financial Officer and Role of Head of Internal Audit<br>• Conditions of employment including; appraisal arrangements; pay and conditions policies; structured pay scales<br>• Effective performance management system including progress on Key Performance Indicators and identifying areas of improvement<br>• Business and financial planning process | • Constitution sets out ESPO's political structure and roles and responsibilities of the Committees, the Chief Officers and the rules under which they operate. There are specific job descriptions in place<br>• Constitution sets out 'Responsibility for Functions' including scheme of delegation to the Director. Also includes financial regulations and contract procedure rules, which have been further updated to reflect current delegations and procedures at ESPO<br>• Regular meetings take place with the Chairman, the Director and the servicing authority<br>• Assessment of compliance with the Statement on the Role of the CFO and Role of the Head of Internal Audit<br>• Monitoring Officer and CFO are responsible for ensuring an appropriate framework exists to ensure procedures are followed<br>• Employment Committee at Leicestershire County Council (LCC), the ESPO Servicing Authority manage and govern all pay matters and are responsible for terms and conditions of service, including remuneration. Pay Policy Statement ensures that ESPO manages its policy on pay and benefits in a fair, non-discriminatory, consistent and transparent way<br>• Established Finance function maintains sound financial frameworks and supports delivery of MTFS<br>• Management Committee maintain oversight of management and stewardship of ESPO and the minutes of these meetings are available<br>• The service level agreement is available for review | |

## PRINCIPLE C:

## Promoting values for the organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

**Under this principle, there is a requirement of ESPO to:**

- Ensure organisation members and officers exercise Chairmanship by behaving in ways that exemplify high standards of conduct and effective governance;
- Ensure that organisational values are put into practice and are effective.

| **Description of Governance Mechanisms:**<br>Evidence and documents that demonstrate compliance / good practice | **Assurances received** | **Weaknesses identified:**<br>Areas for improvement |
|---|---|---|
| • Annual Governance Statement<br>• Member and Officers Codes of Conduct<br>• Performance appraisal<br>• Procedures for responding to behaviour complaints<br>• Anti –fraud and anti-corruption policies<br>• Standing orders and financial regulations<br>• Register of Interests and Gifts and Hospitality – members and staff<br>• Ethical awareness training and dealing with conflicts of interest<br>• Communicating shared values with members, staff, the community and partners<br>• Whistleblowing arrangements<br>• Decision making practices/framework<br>• Protocols for partnership working<br>• Code of Corporate Governance | • AGS produced by compiling and scrutinising information from Departmental Self Assessments and assurance from Internal Audit Service<br>• Members of individual Authorities are subject to their own Code of Conduct<br>• Adopted Leicestershire County Council (LCC), the ESPO Servicing Authority Employee Code of Conduct. 'Dignity At Work' Policy and Procedures provides employees with examples of unacceptable behaviour, and is complimented by other HR policies<br>• Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported<br>• Adopted Leicestershire County Council (LCC), the ESPO Servicing Authority Anti-Fraud & Corruption Policy, Strategy and Procedures<br>• Constitution sets out Financial Rules and Regulations<br>• Organisational Values considered during the PDR, complimented by departmental notices displaying visions and achievements. Whistleblowing policy in place and on the intranet<br>• Scheme of budget delegation in place<br>• Registers for Interest and Gifts and Hospitality maintained by the Directorate office<br>• Various training rolled out through e-learning or through workshops including customer services, health and safety, management skills and policy refreshers | |

# Annual Governance Statement 2015/16

*continued*

## PRINCIPLE D:

### Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

**Under this principle, there is a requirement of ESPO to:**

- Be rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny;
- Have good-quality information, advice and support to ensure that services are delivered effectively and are what the stakeholder wants / needs;
- Ensure that an effective risk management system is in place.

| **Description of Governance Mechanisms:** Evidence and documents that demonstrate compliance / good practice | **Assurances received** | **Weaknesses identified:** Areas for improvement |
|---|---|---|
| • Finance and Audit Subcommittee<br>• Internal Audit function<br>• Decision making protocols / records of decisions and supporting materials<br>• Members' and officers' code of conduct<br>• Terms of reference and membership<br>• Training for committee members including information needs to support decision making<br>• Calendar of dates for submitting, publishing and distributing timely reports<br>• Approved Risk Strategy/Policy<br>• Effective counter fraud arrangements<br>• Legal advice provided by officers | • Finance and Audit Subcommittee receive reports on the revenue budget and capital programme and performance reports in relation to targets and commitments and action plans arising from inspection and assessment reports<br>• Internal Audit Service annual plan of audits provide assurance that the governance, risk management and internal control systems of ESPO are operating effectively<br>• Terms of References for Committees and decision making protocols are detailed in the Constitution – records of decisions, with supporting materials are available through Democratic Services<br>• ESPO's risk management framework is aligned with local government best practice – providing assurance to senior management, Members and public that ESPO is mitigating the risks of not achieving key priorities. This is further audited through the internal audit programme of work<br>• Members of the Management Committee actively engage and take interest in risk management, including detailed scrutiny of the Corporate Risk Register. This is reported quarterly<br>• Monitoring of reports to ensure propriety of decision making and that legal advice is included where necessary and appropriate<br>• External audit assurance<br>• Chief Officer Group assurance<br>• Alignment of key decision making to the key protocols and delegated powers set out in the ESPO constitution<br>• Receiving professional advice and support as and when required to ensure that services are delivered effectively | • Business Continuity Improvement in communication to members of staff. Implementation of training and scenario rehearsals |

## PRINCIPLE E:

## Developing the capacity and capability of members and officers to be effective.

**Under this principle, there is a requirement of ESPO to:**

- Make sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles;
- Develop the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group;
- Encourage new talent for membership of the organisation so that best use can be made of individuals' skills and resources in balancing continuity and renewal.

| **Description of Governance Mechanisms:** Evidence and documents that demonstrate compliance / good practice | **Assurances received** | **Weaknesses identified:** Areas for improvement |
|---|---|---|
| • Induction programme<br>• Officer training and development plans<br>• Availability and communication of L&D activities<br>• Performance reviews of officers<br>• Workforce Planning<br>• Member training and development | • Induction available to all staff<br>• Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers at all grades assessed against behaviours which underpin the management competency framework<br>• Performance management and reporting systems in place at various levels, allowing outcomes to be cascaded and linked to individual development plans<br>• Member meetings with Director on quarterly basis. Also Members are invited to ESPO to review the business and meet officers<br>• Introductory briefings carried out for new members, with refresher insight days offered at regular intervals (normally coinciding with the on-site Management Committee meeting) | |

# Annual Governance Statement 2015/16
*continued*

## PRINCIPLE F:

Engaging with stakeholders to ensure robust public accountability.

**Under this principle, there is a requirement of ESPO to:**

- Exercise Chairmanship through a robust scrutiny function which effectively engages all local institutional stakeholders, including partnerships, and develops constructive accountability relationships;
- Take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service;
- Make best use of human resources by taking an active and planned approach to meet responsibility to staff.

| **Description of Governance Mechanisms:** Evidence and documents that demonstrate compliance / good practice | **Assurances received** | **Weaknesses identified:** Areas for improvement |
|---|---|---|
| • Database of stakeholders<br>• Annual report<br>• Communication Strategy<br>• Annual financial statements<br>• Freedom of Information Act publication scheme<br>• ESPO Website<br>• Best practice standards in recruitment and staff terms and conditions<br>• Clear policies on consulting and involving staff in decision making. Full Public Meetings protocol observed as advised by LCC Democratic Services (observing requirements of public reporting, and private session routines for commercially sensitive subject matter) | • Full public annual report providing information on outcomes and achievements<br>• ESPO recognise the importance to consult, involve and listen to stakeholders so that the organisation can be improved and future plans made<br>• The Statement of Accounts are published every year. The accounts have been produced in line with the various regulations<br>• Freedom of Information (FOI) and Environmental Information Regulations Policy underpin the key principles of the Information Management Strategy in that ESPO embraces a culture that is open, accessible and accountable, aiming to publish as much information as possible. FOI practices are in place to enable ESPO to meet obligations and aid understanding of public interests<br>• ESPO website is frequently used as a medium to inform and engage with the stakeholders and updates on the homepage direct users to key information<br>• Recruitment undertaken in accordance with policy and procedures | |

## 3. 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 senior managers within ESPO who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The CIPFA/SOLACE Governance Framework details the key sources of typical systems and processes that an organisation can adopt to ensure it has an effective system of internal control. Using this guidance ESPO can provide assurance that it has effective governance arrangements, which have been established through the following:

### Code of Corporate Governance

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

### Internal Audit Service

#### Background

During the financial year 2015/16, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO.

The Internal Audit Service (IAS) should conform to the Public Sector Internal Audit Standards 2013 (the PSIAS). An Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at ESPO was approved by Management Committee in February 2015. The Head of Internal Audit Service (HoIAS) conducted a further self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. There were a few specific areas identified where action is needed however these are not significant deviations to the PSIAS. Whilst there has been movement towards full conformance for the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

In order to meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. the framework of governance, risk management and control, the HoIAS constructs an annual risk based plan of audits. Given the continuing improvements in risk management at ESPO, the plan is primarily based on the contents of Corporate Risk Register, Major Risk Records, the four year Strategy and the AGS, to ensure that current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial systems that are used by the External Auditor in their audit of the financial accounts. A contingency is retained for unforeseen risks, special projects and investigations.

Audit reports often contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk management and control framework (i.e. the control environment).

The HoIAS presents an annual report to the Management Committee in June. The annual report incorporates the annual internal audit opinion; a summary of the work that supports the opinion; performance against the plan, a statement on conformance with the PSIAS and any matters to be raised in the AGS.

For 2015/16, based on audit work undertaken, overall, positive opinions were given in all three components of the control environment (governance, risk management and control).

#### Governance related internal audit work

An opinion on whether good governance principles have been applied is based on the results of audits of Annual Governance; Business Strategy/ Transformation; Information management; Transparency; Governance framework and Management Information. Recommendations were relatively minor and where they related to governance, it was to improve it, i.e. not to have to establish it.

The HoIAS attends the Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand.

The HoIAS has regular discussions with the ESPO Director and the Leadership Team, the Consortium Treasurer, and where required the Consortium Secretary on governance issues and related aspects of audits.

HoIAS opinion: - Nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that ESPO's governance arrangements are robust.

# Annual Governance Statement 2015/16
*continued*

### Risk management related internal audit work
The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

A follow up of the project management arrangements for the replacement of the GEMS energy management system confirmed that the two high importance recommendations had been implemented.

A specific audit of the ESPO risk management framework (corporate risk register) proved there were yet further improvements and good elements of risk management. Other audits conducted that linked to risk management were Business Strategy/Transformation; Customer satisfaction; Counter fraud; ICT update to 'Aurora' and Procurement & Compliance Risk Management.

The HoIAS informs the External Auditor on ESPO's management of fraud risk.

HoIAS opinion: Management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

### Financial (and ICT) Controls related internal audit work
A number of financial system audits were undertaken on ESPO's Rebates Income; BACS; General Ledger Reconciliations; Trading Performance; Distribution of Surplus; Servicing authority role; Payment Cards compliance to industry standards; IT General Controls - External Auditor Reliance. No findings were of such seriousness as to suggest a fundamental weakness in a main financial system. There were no employee or creditors data matches suggesting fraudulent activity.

HoIAS opinion: Reasonable assurance can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs.

## Risk management arrangements

### Governance of Risk
ESPO's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. In order for risk management to be most effective and become an enabling tool, ESPO must ensure a robust, consistent, communicated and formalised process is established. The refresh of the framework aims to ensure that links to Departmental Risk Registers are strengthened, thereby ultimately improving the flow of risk information throughout the Organisation. This revision also included a refresh of the Corporate Risk Register and Risk Management Policy and Strategy – these along with supporting documentation, form an integrated framework that supports ESPO in the effective management of risk.

Risk management processes have been further entrenched into the management of the organisation with each member of the management team being responsible for reviewing changes in risk on a quarterly basis within their area of responsibility.

## External Audit

ESPO's external auditors PricewaterhouseCoopers (PWC) gave detailed findings from their planned audit work of ESPO, to those charged with governance through:

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

### Audit opinion for the 2014/15 Statement of Accounts, incorporating value for money conclusion
The audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. For 2014/15, ESPO's statement of accounts presented a true and fair view, in accordance with the relevant codes and regulation.

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

ESPO 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. Having regard to the guidance on the specified criteria by the Audit Commission, external auditors are satisfied that, in all significant respects, ESPO put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

## Organisational Governance and Performance Framework

The Leadership Team and Management Committee receive a monthly Balanced Scorecard, which includes information relating to:

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

## Annual Governance Assurance Statements

The annual review of effectiveness requires the sources of assurance, which ESPO relies on, to be brought together and reviewed from both a department and corporate view.

To ensure this Annual Governance Statement presents an accurate picture of governance arrangements currently in place, senior managers were required to complete a 'Governance Self- Assessment', which provided details of the measures in place within their area to ensure compliance (or otherwise) with ESPO's Code of Corporate Governance. Where specific 'areas of improvement' were identified, these have been incorporated into an action plan for management to discuss and prioritise during the course of the next financial year.

In order to assist the HoIAS' opinion on the adequacy and effectiveness of ESPO's control environment, sample checking of the returns and supporting evidence was conducted. This included:

- Discussion on how the self-assessment was conducted, co-ordinated, discussed and signed;
- Follow up with the Director and Leadership Team to confirm their involvement;
- Selecting areas across the range of the six core principles to test if there was sufficient evidence to support the response.

Additionally, a Member was interviewed to confirm that processes in place to inform and update them on key risks and issues relating to ESPO were satisfactory, and a sample of ESPO staff were interviewed to evaluate to what extent they were aware of managements' assertions that staff are kept well informed.

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

CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government (2010) sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them.

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

## The Role of the Head of Internal Audit

CIPFA's Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010) sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them. The Head of the Internal Audit Service for ESPO is also the Head of the Internal Audit Service for LCC.

ESPO's internal audit arrangements conform to the governance requirements of the CIPFA Statement. The HoIAS works with the Consortium Treasurer and Secretary, the Director of ESPO and other members of the Leadership Team to give advice and promote good governance throughout the organisation. The HoIAS attends the Finance and Audit Subcommittee and the Management Committee as and when required. The HoIAS also leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Organisation and external stakeholders, escalating any concerns and giving assurance on ESPO's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Organisation.

# Annual Governance Statement 2015/16

*continued*

### The Role of the Consortium Secretary

The Consortium Secretary has responsibility for:

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

Where in the opinion of the Consortium Secretary any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Management Committee accordingly.

In discharging this role the Consortium Secretary is supported by officers within the County Council's Legal and Democratic Services Teams.

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

## 4. Governance Issues

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that ESPO's overall financial management and corporate governance arrangements during 2015/16 were sound.

### Progress on issues previously identified:

The table below describes the governance issues identified during 2014/15 and the progress made against this during 2015/16. These are not considered material governance issues:

| Key Improvement Area | Update on position | Carry forward for 2016/17 | Lead Officer |
|---|---|---|---|
| **Business Continuity**<br>Up to date Business Continuity plans need to be implemented. | Completed | Ongoing Training | Director |
| **Succession Plans**<br>Succession planning for key posts needs to be implemented. | Completed | No | Director |
| **Stakeholders**<br>A review of stakeholders that need to be engaged with needs to be created. | Completed | No | Director |
| **Forward Planning**<br>Forward plan of consultation and engagement with stakeholders needs to be created. | Completed | No | Director |
| **Internal Audit Function**<br>Implement actions to ensure the internal audit function adequately conforms to the Public Sector Internal Audit Standards. | Completed | No | Head of Internal Audit Service |

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2015/16 are sound, the assurance gathering process identified key corporate areas of improvement. Implementing actions to address these will ensure that identified weaknesses within ESPO's current control environment will be strengthened, and further enhance our overall governance arrangements.

The table below describes identified areas for improvements during the review period 2015/16 to carry forward for monitoring within 2016/17.

| Key Improvement Area | Lead Officer | Deadline |
|---|---|---|
| **Business Continuity**<br>Improvement in communication to members of staff.<br>Implementation of training and scenario rehearsals. | Director | March 2017 |

## 5. Future Challenges

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

## 6. Certification

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 4. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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

**J. Doherty**
Director

**Councillor I. Monson**
Chairman, ESPO Management Committee

# Independent auditors' report to the directors of Eastern Shires Purchasing Organisation (ESPO)

## Report on the financial statements

### Our opinion

In our opinion, Eastern Shires Purchasing Organisation's (ESPO) non-statutory financial statements (the "financial statements"):

- give a true and fair view of the state of ESPO's affairs as at 31 March 2016 and of its income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the CIPFA Service Reporting Code of Practice for Local Authorities 2015/16.

### What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance Sheet as at 31 March 2016;
- the Comprehensive Income and Expenditure Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Movement in Reserves Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 supported by the CIPFA Service Reporting Code of Practice for Local Authorities 2015/16. In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Consortium Treasurer's Responsibifities Statement set out on page 5, the Consortium Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for ESPO as a body for your private use to assist you to discharge your stewardship and fiduciary responsibifities in accordance with our engagement letter dated 14 December 2015 and for no other purpose. 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, including without limitation under any contractual obligations of ESPO, save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to ESPO's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Other matter

We draw attention to the fact that these financial statements have not been prepared under section 394 of the Companies Act 2006 and are not statutory financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham

10th November 2016

# Glossary of terms

| Definitions | Description |
|---|---|
| **Accounting Policies** | The specific principles, bases, conventions, rules and practices applied in preparing and presenting accounts. |
| **Accruals** | Requires that costs and revenues are recognised in the accounts when incurred or earned not when money is received or paid. |
| **Amortised Cost** | The amortised cost of a financial asset or financial liability is<br>• the amount at which the asset or liability is measured at initial recognition (usually "cost")<br>• minus any repayments of principal,<br>• minus any reduction for impairment or un-collectability, and<br>• plus or minus the cumulative amortisation of the difference between that initial amount and the maturity amount. |
| **Balance Sheet** | The Balance Sheet represents the organisation's financial situation as at the Balance Sheet date. The Balance Sheet is composed of two main parts:<br>• Net Assets and<br>• Total Reserves. |
| **Cash and Cash Equivalents** | Cash is represented by cash in hand and deposits with financial institutions repayable without penalty within 24 hours. Cash equivalents are investments of less than 3 months from acquisition that are readily convertible to known amounts of cash with insignificant risk of a change in value. |
| **Capital Expenditure** | Capital expenditure represents expenditure on the construction, acquisition, development or improvement of Property, Plant and Equipment and of Intangible Fixed Assets. |
| **Capital Receipts** | Income received from the sale of capital assets. |
| **Comprehensive Income and Expenditure Account** | A summary of the resources generated and consumed by the organisation in the year. It summarises trading income and expenditure for the relevant financial years of all functions for which ESPO is responsible. |
| **Cash Flow Statement** | The Cash Flow Statement summarises the inflows and outflows of cash and cash equivalents resulting from operations and from investing and financing activities. It also shows how the net cash flow from operations is related to the Net Surplus or Deficit on the Provision of Services. |
| **CIPFA** | The Chartered Institute of Public Finance and Accountancy is the lead body for setting standards in the public sector accounting practice. |
| **Contingent Liabilities** | Contingent liabilities are possible future liabilities that will only become certain on the occurrence of some future event. A contingent liability is less certain than a provision: the latter is expected to occur, a contingent liability might occur.<br>Contingent liabilities are not shown in the Balance Sheet, but must be disclosed in the notes. |
| **Creditors** | Creditors are financial liabilities arising from goods or services that have been received but for which payment has not been made by the Balance Sheet date. |
| **Current Assets / Liabilities** | Current liabilities are the debts the organisation owes which must be paid within one year. They are the opposite of current assets. Current Assets are assets that can be convertible in to cash at short notice. |
| **Debtors** | Debtors are amounts owed to the organisation where the services and goods have been delivered but payment has not been received by the Balance Sheet date. |
| **Depreciation** | Depreciation is a non cash expense that reduces the value of an asset as a result of wear and tear, age or obsolescence. |
| **Fair Value** | Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. |
| **International Financial Reporting Standards (IFRS)** | A statement of common accounting practice, devised by the International Accounting Standards Board, which is applicable to the majority of large organisations, both within the public and private sector. |
| **General Fund** | This is the organisation's main revenue fund. It provides the resources necessary to sustain the day-to-day business activities and thus pays for all administrative and operating expenses. |

| Definitions | Description |
|---|---|
| **Impairment** | A loss in the value of a fixed asset, arising from physical damage such as a major fire or a significant reduction in market value. |
| **Intangible Fixed Assets** | Non financial fixed assets that do not have any physical substance but are identifiable and are controlled by the organisation through custody or legal rights (e.g. purchased software licences). |
| **Leasing** | A method of financing the acquisition of assets for e.g. equipment, vehicles and plant etc.<br>There are two forms of lease:<br>• A finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.<br>• An operating lease involves the payment of a rental by a lessee for a period, which is normally less that the useful economic life of the asset. |
| **Long Term Borrowing** | Loans raised to finance capital spending which have still to be repaid. |
| **Movement in Reserves Statement** | This statement represents the changes in the organisation’s financial resources over the year and is analysed in to “usable reserves”, those that can be applied to fund expenditure and “unusable reserves”. |
| **Net Book Value** | This is the asset’s original cost less the depreciation or amortisation. |
| **Net Worth (Net assets/liabilities)** | This is the value by subtracting the total liabilities from the total assets in the Balance Sheet. |
| **Non Current Assets** | An asset which is not easily convertible to cash within twelve months. Examples include Fixed and Intangible assets. |
| **Provisions** | A provision is a liability of an uncertain timing or an amount. |
| **Public Works Loan Board (PWLB)** | The Public Works Loan Board is a government agency which provides long term loans to local authorities, usually at advantageous interest rates. |
| **Remuneration** | All sums paid to an employee, including expenses, allowances and redundancy payments chargeable to UK income tax, and the monetary value of any other benefits received other than in cash. |
| **Revenue** | Expenditure that ESPO incurs on the day to day costs of its goods and services including purchases for resale, salaries, premises costs, vehicles and other running expenses as well as charges to provide funds for renewals of non-current assets. This expenditure is funded from income generated from the supply of goods and services to customers. |
| **Unusable Reserves** | Unusable reserves are those which do not represent funding that is available to support service delivery. These reserves generally arise from statutory adjustments and the treatment of unrealised changes in the value of assets or liabilities. |
| **Usable Reserves** | A usable reserve represents resources the organisation can control in making service delivery decisions. Each usable reserve may have different restrictions upon its potential use, dependent upon decisions made by the organisation. |


The ESPO Annual Report 2015/16 is available to view or download at www.espo.org

ESPO
Barnsdale Way
Grove Park
Enderby
Leicester LE19 1ES
Telephone 0116 265 7878
www.espo.org

Q0702