

Chief Executive

Merran McRae – Chief Executive

Your Ref.
Our Ref

Please Reply To **Kayley Sykes**
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Date 14 March 2019

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Typetalk calls welcome

To: Members of the Management Committee of the Yorkshire Purchasing Organisation Joint Committee

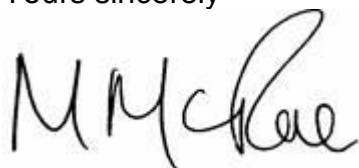
Chief Executive of the Constituent Authorities (for information)

Dear Councillor

**YORKSHIRE PURCHASING ORGANISATION MANAGEMENT COMMITTEE MEETING
– FRIDAY, 22 MARCH 2019**

You are invited to a meeting of the Management Committee of the Yorkshire Purchasing Organisation Joint Committee which is to be held at **10:30 am on Friday, 22 March 2019** at the **YPO HQ, 41 Industrial Park, Wakefield** to consider the items set out in the agenda detailed overleaf.

Yours sincerely



Merran McRae
Secretary to the Joint Committee

PLEASE NOTE: A buffet lunch is to be provided at the conclusion of the meeting. Please contact Kayley on the details above if you have any dietary requirements.

As a courtesy to colleagues will you please turn all electrical devices to silent prior to the start of the meeting.

**YORKSHIRE PURCHASING ORGANISATION MANAGEMENT COMMITTEE -
Friday, 22 March 2019**

AGENDA

1. Apologies for Absence.
2. Members' Declaration of Interest.
3. To note any items which the Chairman has agreed to add to the agenda on the grounds of urgency.
4. To approve, as a correct record, the Minutes of the Management Committee meeting held on 30th November 2018. (Pages 1 - 4)
5. To approve, as a correct record, the Minutes of the Audit & Scrutiny Sub Committee meeting held on 15th February 2019. (Pages 5 - 8)
6. To approve, as a correct record, the Minutes of the Executive Sub Committee meeting held on 8th March 2019. (Pages 9 - 11)
7. Pre-Audit Statement of Accounts. (Pages 13 - 54)
8. Internal Audit Annual Report. (Pages 55 - 63)
9. Internal Audit Plan. (Pages 65 - 72)
10. Financial Procedure Rules and Standing Orders relating to Contracts. (Pages 73 - 90)
11. Lead Authority Issues.
12. In relation to reports containing exempt information to consider, and if approved, pass the following resolution:-

"That the public and press be excluded from the meeting for consideration of agenda items 13 - 17 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended."
- IN PRIVATE**
13. Associate Membership Applications. (Pages 91 - 95)
14. Business Update. (Pages 97 - 101)
15. Treasury Outturn Report. (Pages 103 - 113)
16. Report of Independent Director. (Pages 115 - 117)
17. Dividend Distribution. (Pages 119 - 122)
18. Date and Time of Next Meeting.
That the next meeting be held on 21st June 2019.

YORKSHIRE PURCHASING ORGANISATION MANAGEMENT COMMITTEE

Friday 30th November 2018

- Present:**
- Bolton**
Councillor Mistry
 - City of Bradford**
Councillor Whiteley
 - Barnsley**
Councillor Barnard
 - Calderdale**
Councillor Scullion
 - Knowsley MBC**
Councillor Walsh
 - North Yorkshire CC**
Councillor Mackenzie
 - Rotherham MBC**
Councillor Atkin
Councillor Vjestica
 - St Helens MBC**
Councillor Johnson
 - Wakefield MDC**
Councillor Shaw
Councillor Graham
 - Wigan MBC**
Councillor Walker
 - City of York**
Councillor Rawlings
Councillor Cuthbertson

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| 32: | Apologies for Absence |
| | Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Warburton (Bradford) Carter (Calderdale) Nightingale (Doncaster) Dadd (North Yorkshire) Rehman (Wigan) Cole (Doncaster) Asif (Kirklees) Wiseman (St Helens) Morris (Bolton) & Gardiner (Barnsley). |
| 33: | Minutes of Management Committee held on 29th June 2018 |
| | That the minutes of the meeting of the Management Committee held on 29 th June 2018 be accepted as a correct record. |
| 34: | Minutes of the Audit & Scrutiny Sub Committee held on 2nd November |

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| | 2018 |
| | That the minutes of the meeting of the Audit & Scrutiny Sub Committee held on 2 nd November 2018 be accepted as a correct record. |
| | |
| 35: | Minutes of the Executive Sub Committee held on 16th November 2018 |
| | That the minutes of the meeting of the Executive Sub Committee held on 16 th November 2018 be accepted as a correct record. |
| | |
| 36: | Members Declaration of Interest |
| | No declarations of interest were made by members. |
| | |
| 37: | YPO Pay Policy |
| | <p>Consideration was given to a report of the Executive Director, Julie Wray which asked Members to agree a pay policy for YPO in line with statutory requirements to comply with the 2011 Localism Act.</p> <p>Members asked Officers a number of questions relating to the YPO Pay Policy and Members were satisfied with Officers responses.</p> <p>Resolved – (1) That the Pay Policy for 2019 be agreed.</p> <p>(2) That the information be published in line with the revised transparency requirements.</p> |
| | |
| 38: | Appointment of Auditors |
| | <p>The Executive Director, Paul Smith presented a report that was previously submitted to the Audit & Scrutiny Sub Committee. Decision has been taken to roll over the previous contract with KPMG by one year, this is the final year covered by the contract and a tender process will be carried out during 2019.</p> <p>Resolved – (1) That Members note the appointment of the external auditors KPMG.</p> |
| | |
| 39: | Lead Authority Issues |
| | No Lead Authority issues were raised. |
| | |
| 40: | Exclusion of the Public & Press |
| | Resolved - That the public and press be excluded from the meeting during consideration of Agenda Items 11 to 13 on the grounds that they were likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended. |
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| | IN PRIVATE |
| 41: | Business Update - (Exempt Paragraph 3) |
| | <p>Members considered the report of the Managing Director which provided Members with an update of the activities of the organisation since the previous committee meeting and gave an overview of the forthcoming activities and challenges.</p> <p>Simon Hill, Managing Director, provided an update on the budget where the</p> |

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| | <p>organisation is expected to come in at the end of December 2018.</p> <p>Members were informed that arrangements have been made for additional storage to ensure forward buying can take place and deliveries can be taken in March.</p> <p>Jo Marshall, Executive Director, shared that Own Brand sample packs have been distributed to schools, and they have been well received and schools are ordering own brand products on the back of receiving the sample packs.</p> <p>Julie Wray, Executive Director, explained to Members about the proposal to implement a new pay spine as part of the national pay deal, LGA guidance has been followed and a preferred option has been sought and approval from the Chair and Vice Chair was obtained to begin work.</p> <p>Resolved – (1) That the report be noted.</p> <p>(2) It was agreed to go ahead with the proposal for implementation of the new spine which was previously consulted with the Chair and Vice Chair.</p> <p>(3) Jo Marshall, Executive Director to share a breakdown of member area figures with Cllr Walker (Wigan).</p> |
| | |
| <p>42:</p> | <p>Budget & Business Plan 2019 – (Exempt Paragraph 3)</p> |
| | <p>Executive Director, Paul Smith, presented to Members the Budget and Business Plan for 2019.</p> <p>Members asked Officers a number of questions relating to the Budget & Business Plan and Members were satisfied with Officers responses.</p> <p>Resolved – (1) That the 2019 Budget and Business Plan is approved.</p> <p>(2) The Budget & Business Plan presentation be shared electronically with Members for their perusal.</p> |
| | |
| <p>43:</p> | <p>Report of the Independent Director – (Exempt Paragraph 3)</p> |
| | <p>Members gave consideration to a report of the Independent Director which detailed his observations of the organisation since June.</p> <p>The Independent Director shared with Members that it is no accident YPO is performing well, the extension of the supplies business has put YPO in a strong position.</p> <p>Members asked the Independent Director a number of questions relating to the report and Members were satisfied with Officers responses.</p> <p>Resolved - (1) That the report of the Independent Director and his observations be noted.</p> <p>(2) That a report of Governance be prepared by the Board and the Lead Authority and submitted to the March Management Committee.</p> |

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| | (3) That the Board arrange a Strategy Workshop for Members to attend. |
| 44: | DATE AND TIME OF NEXT MEETING Resolved – That the next meeting of the YPO Management Committee will be held on 22 nd March 2019 |

YORKSHIRE PURCHASING ORGANISATION

AUDIT & SCRUTINY SUB-COMMITTEE

FRIDAY, 15TH FEBRUARY 2019

Present: The Chair: Councillor Warburton (Bradford)

Councillors: Warburton (Bradford), Barnard (Barnsley), Scullion (Calderdale), Cuthbertson (York), Mistry (Bolton), Cole (Doncaster), Vjestica (Rotherham), Nightingale (Doncaster), Dadd (North Yorkshire)

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| 79. | CHAIR'S INTRODUCTION & WELCOME |
| | Councillor Warburton welcomed all parties to the meeting. |
| | |
| 80. | ACCEPTANCE OF APOLOGIES FOR ABSENCE |
| | Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Carter (Calderdale), Rehman (Wigan), Graham (Wakefield), Wiseman (St Helens). |
| | |
| 81. | MEMBERS DECLARATION OF INTEREST |
| | No declarations of interest were made. |
| | |
| 82. | URGENT ITEMS |
| | Managing Director (Simon Hill) proposed a date change to the next meeting to accommodate YPO's all staff conference. It was agreed that the new date would be circulated electronically and any issues with the date would be raised with the Business Services Manager (Kayley Sykes). |
| 83. | PREVIOUS MINUTES (AUDIT & SCRUTINY SUB COMMITTEE) |
| | The minutes of the YPO Audit & Scrutiny Sub-Committee held on 2 nd November 2019 were approved by all. |
| | |
| 84. | ANNUAL GOVERNANCE STATEMENT |
| | Consideration was given to a report of the Executive Director (Paul Smith), which provided Members with the details of the Annual Governance Statement. |
| | Members welcomed the report and thanked the Board of Directors for the pleasing report. |
| | Resolved - (1) That the Annual Governance Statement be approved. |
| 85. | PRE-AUDIT STATEMENT OF ACCOUNTS |
| | Consideration was given to the report of the Head of Finance which provided Members with the details of the Pre-Audit Statement of Accounts 2018, attached as Appendix 1 and to inform Members of the public notice of the commencement of the audit and public inspection period. |
| | The report will be submitted to the next meeting of the YPO Management |

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| | <p>Committee for the information to be noted by members.</p> <p>Chair offered thanks to everyone that has been involved in preparing the pre-audit statement of accounts</p> <p>Resolved – (1) That the Pre - Audit Statement of Accounts 2018 are agreed to be submitted to External Audit and the public inspection notice to be issued.</p> |
| <p>86.</p> | <p>INTERNAL AUDIT ANNUAL REPORT</p> |
| | <p>Consideration was given to the report of the S151 Officer which provided Members with the Internal Audit Annual Report 2018 which details the work undertaken during January – December 2018.</p> <p>Resolved – (1) That the Internal Audit Annual Report 2018 be noted.</p> |
| <p>87.</p> | <p>INTERNAL AUDIT PLAN UPDATE</p> |
| | <p>Consideration was given to a report which detailed the Internal Audit's progress and work since the last Audit and Scrutiny Sub Committee.</p> <p>Resolved – (1) That the report be noted.</p> |
| <p>88.</p> | <p>EXTERNAL AUDIT PLAN</p> |
| | <p>Rashpal Khangura (KPMG) shared that the External Audit Plan from KPMG.</p> <p>Matthew Moore (KPMG) provided a verbal overview of the plan which sets out the proposed approach to audit the financial statements of YPO for the year ending 31 December 2018.</p> <p>The plan also outlines to Members the details of the timeline of the audit and the agreement of audit fees.</p> <p>Resolved – (1) That the report be noted.</p> |
| <p>89.</p> | <p>GIFTS & HOSPITALITY REGISTER</p> |
| | <p>Consideration was given to the Gifts and Hospitality report presented by the Managing Director (Simon Hill).</p> <p>The Managing Director explained that as part of its Anti-Fraud and Bribery Framework, YPO maintains a Gifts and Hospitality register as part of the policy which employees must follow.</p> <p>Members were happy with the content of the Gifts and Hospitality Register.</p> <p>Resolved – (1) That the report be noted.</p> |
| <p>90.</p> | <p>FINANCIAL PROCEDURE RULES AND STANDING ORDERS RELATING TO CONTRACTS</p> |
| | <p>The Executive Director (Paul Smith) presented the Financial Procedure Rules & Standing Orders Relating to Contracts.</p> <p>The Financial Procedure Rules & Standing Orders Relating to Contracts have been reviewed to ensure compliance with the current law. Members were advised that no changes were required at this time.</p> |

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| | <p>Resolved – (1) That the Standing Orders for Contracts and Financial Procedure Rules be noted.</p> |
| 91. | <p>INTERNAL AUDIT ACTION UPDATE</p> <p>Consideration was given to a report which provided an update as to the progress made towards actions resulting from internal audits completed at YPO, as part of the Annual Audit Plan by Wakefield Council’s Internal Audit.</p> <p>Resolved – (1) That the progress made in implementing internal audit actions be noted.</p> |
| 92. | <p>EXCLUSION OF THE PUBLIC AND PRESS</p> <p>Resolved – That the public and press be excluded from the meeting during consideration of agenda items 15 to 19 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended.</p> |
| 93. | <p>IT PROGRAMME UPDATE (LINK) (EXEMPT – PARAGRAPH 3)</p> <p>Consideration was given to the report of the Executive Director (Paul Smith) which provided Members with an update on the current project dossier.</p> <p>The report summarised the latest progress with the IT Programme.</p> <p>Members raised a number of questions in relation to timescales and were satisfied with the responses given by Officers.</p> <p>Resolved – (1) That the report be noted.</p> |
| 94. | <p>RISK REGISTERS (EXEMPT – PARAGRAPH 3)</p> <p>A report of the Executive Director (Paul Smith) provided details of the Strategic Risk Register for YPO.</p> <p>The Strategic Risk Register explains to Members the risks faced by the organisation including assessment on the level of risk, the controls in place, any additional controls and risk owners.</p> <p>Resolved – (1) That the Strategic Risk Registers for the Organisation be noted.</p> |
| 95. | <p>STOCK ADJUSTMENTS (EXEMPT – PARAGRAPH 3)</p> <p>Consideration was given to a report that outlines the stock adjustments incurred during 2018.</p> <p>Members raised a number of questions and detailed responses from YPO Officers were accepted.</p> <p>Councillor Dadd (North Yorkshire) shared that it would be good to see where YPO sit in the market in relation to benchmarking for the right offs with perishables.</p> |

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| | <p>Resolved – (1) That the report be noted.</p> |
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| 96. | OPTIONS FOR AUTOMATIC SPRINKLERS (EXEMPT – PARAGRAPH 3) |
| | <p>The Audit and Scrutiny Sub-Committee discussed the report of the Executive Director (Julie Wray) in relation to the options of automatic sprinklers.</p> <p>Members held a detailed discussion in relation to automatic sprinklers and long-term viability.</p> <p>Resolved – (1) That decision be put on hold pending a future report in November in relation to YPO’s property strategy.</p> |
| 97. | DATE AND TIME OF NEXT MEETING |
| | <p>Resolved – (1) That the next meeting of the YPO Audit & Scrutiny Sub Committee is proposed to be held on Wednesday 29th May 2019, 10.30am.</p> |
| | |

YORKSHIRE PURCHASING ORGANISATION EXECUTIVE SUB-COMMITTEE

8th March 2019

Present: The Chair: Councillor Walker (Wigan)
 Councillors: Rawlings (York), Whiteley (Bradford), Mackenzie (North
 Yorkshire).

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| 16: | CHAIR'S INTRODUCTION & WELCOME |
| | The Chair, Councillor Walker, welcomed Members to the meeting. |
| 17: | APOLOGIES FOR ABSENCE |
| | Apologies for absence submitted prior to the meeting were accepted on behalf of Councillor Shaw (Wakefield), and Atkin (Rotherham). |
| 18: | MEMBERS DECLARATION OF INTEREST |
| | There were no declarations of interest made. |
| 19: | URGENT ITEMS |
| | Cllr Walker agreed to add an urgent verbal item to the agenda. Cllr Walker stated that this would be discussed in the private section of the meeting as it was commercially sensitive. |
| 20: | MINUTES – 16TH NOVEMBER 2018 |
| | Resolved – (1) That the Minutes of the meeting of the YPO Executive Sub-Committee held on 16 th November 2018 be approved as a true and accurate record. |
| 21: | LEAD AUTHORITY ISSUES |
| | No Lead Authority issues were discussed. |
| 22: | EXCLUSION OF THE PUBLIC AND PRESS |
| | Resolved – That the public and press be excluded from the meeting during consideration of Agenda Items 8 to 14 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972 as amended. |
| 23: | ASSOCIATE MEMBERSHIP APPLICATIONS (EXEMPT) |
| | A report was submitted detailing applications for four new Associate memberships from: Cleveland Police, Lancashire County Council, London Borough of Islington and Oxfordshire County Council. |

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| | <p>Councillors asked for more detail and clarification around a number of points and were satisfied with the responses provided by Officers.</p> <p>Resolved - (1) That the report was acknowledged and recommended to the Management Committee for approval.</p> |
| | |
| 24: | FINANCIAL PERFORMANCE REPORT (EXEMPT) |
| | <p>The Executive Director (Paul Smith) presented the report detailing the full year results against the budget for year ending 2018.</p> <p>Thanks were given to the Board of Directors for the work undertaken throughout 2018 in a very challenging market.</p> <p>Resolved – (1) That the Financial Performance Report be acknowledged and noted.</p> |
| | |
| 25: | BUSINESS UPDATE (EXEMPT) |
| | <p>The Managing Director (Simon Hill) presented the Business Update which provided Members with an update on activities of the organisation since the last sub-committee and provided an overview on forthcoming activities and challenges.</p> <p>Updates were given on the Procurement, Commercial, Operations and Business Change & IT areas of the business.</p> <p>Resolved – (1) That the report be noted.</p> |
| | |
| 26: | ATTENDANCE REPORT (EXEMPT) |
| | <p>The Executive Director (Julie Wray) presented the Attendance report. This report is provided in response to a request from Members to update the Committee on levels of sickness absence in the organisation.</p> <p>Councillors made a number of comments on the absence figures, and Officers provided further explanation on certain points.</p> <p>Resolved – (1) That the report be noted.</p> |
| | |
| 27: | OPTIONS FOR AUTOMATIC SPRINKLERS (EXEMPT) |
| | <p>Members discussed the report of the Executive Director (Julie Wray) in relation to the options of automatic sprinklers.</p> <p>The Managing Director held a discussion in relation to automatic sprinklers and long-term viability.</p> <p>Resolved – (1) That decision be put on hold pending a future report in</p> |

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| | November in relation to YPO's property strategy. |
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| 28: | INDEPENDENT DIRECTOR MEMBERS DISCUSSION (EXEMPT) |
| | <p>The Chair requested that YPO officers leave the meeting for this item.</p> <p>The Independent Director (Rob McWilliam) provided Members with a verbal update in relation to YPO's on-going activity and challenges, Governance and Strategy.</p> <p>Councillors thanked the Independent Director for his update and noted it was useful.</p> <p>Resolved – (1) That the verbal update be acknowledged and noted.</p> |
| | |
| 29: | URGENT ITEM |
| | <p>The Managing Director (Simon Hill) updated Members on a strategic opportunity that has arisen, Members acknowledged the information provided and agreed with the next steps suggested by the Managing Director. A further verbal update will be provided to the Management Committee on 22nd March 2019.</p> |
| 30: | DATE AND TIME OF NEXT MEETING |
| | <p>Resolved – (1) That the next meeting of the YPO Executive Sub Committee is to be held 7th June 2019, 10.30am.</p> |
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YPO
MANAGEMENT COMMITTEE
TO BE HELD ON
22ND MARCH 2019

SUBJECT: STATEMENT OF ACCOUNTS 2018

REPORT OF: FINANCIAL CONTROLLER

1 PURPOSE OF REPORT

1.1 To present the pre-audit Statement of Accounts for 2018.

2 SUMMARY

2.1 The draft Statement of Accounts has been prepared and is ready for External Audit.

3 RECOMMENDATIONS

3.1 That it is noted that the draft Statement of Accounts has been approved for audit by the Audit & Scrutiny Sub Committee on 15th February 2019.

4 BACKGROUND

4.1 In accordance with the Accounts and Audit Regulations, 2015 and taking into account relevant accounting codes of practice and applicable accounting standards, a Statement of Accounts has been prepared.

4.2 Although the compliance noted in 4.1 is no longer mandatory for YPO, as a Joint Committee, it was agreed at Management Committee in March 2016 that a non-statutory audit would still be needed and the accounts would be prepared each year in line with the relevant standards and regulations.

4.3 The audit will take place in March 2019 for a period of two weeks.

- 4.4 The pre-audit statement of accounts has been examined by officers from the Lead Authority.
- 4.5 Property valuations were obtained from Norfolk Property Services as at 30th November 2018 and adjustments to the accounts have been made in accordance with UK Generally Accepted Accounting Principles.
- 4.6 The pensions account has been adjusted in accordance with the recent actuarial valuation provided.

5. PROFIT & LOSS RECONCILIATION

- 5.1 On page 10 of the attached Statement of Accounts is the Comprehensive Income and Expenditure (I&E) Account. The I&E Account for 2018 presents a net deficit for the provision of service of £2.189m. This is in comparison to profits of £8.571m reported in Note 16 “Amounts reported for Decision making and planning” and £8.584m in December’s initial performance report.
- 5.2 The variance between the I&E account and the amounts reported for decision making and planning of £10.760m is due to the deficit on the provision of service including all financing and investment expenditure. Therefore, all pension service costs £2.138m, pension interest costs of £0.613m, dividend payments made in the year of £7.253m and earmarked reserve expenditure of £0.989 are included as well as the revaluation gain on Land and Buildings of £0.233m.
- 5.3 The variance between the I&E account and December’s initial performance report is the same as point 5.2 above, plus £0.013m for adjustments made to the final profit figure. This was a result of some slight amendments made to December’s accruals total identified during the year-end process.
- 5.4 The above variances are detailed in appendix 2 to this report.

7. WHAT DOES THIS MEAN FOR YPO STAKEHOLDERS

- 7.1 An unqualified audit opinion will give stakeholders some assurance that the organisation is acting within the protocols of good financial management.

8. OUTCOME AND SUSTAINABILITY

- 8.1 An unqualified audit opinion will be a good outcome and will acknowledge that the organisation has effective financial controls and corporate governance. The financial position suggests a solid financial base and that YPO is a going concern.

9. RISK ASSESSMENT

- 9.1 There is a risk that the accounts will be qualified, which will have political and reputational risks for YPO. Working closely with the external auditors and acting on findings should mitigate that risk.

10. CONSULTATIONS AND ENGAGEMENT

- 10.1 Consultations have taken place with the Lead Authority about the contents of the Statement of Accounts. Further consultations will take place as and when required.

11. BACKGROUND PAPERS

- 11.1 Statement of Accounts for 2018.

SERVICE DIRECTOR: PAUL SMITH, EXECUTIVE DIRECTOR

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Wakefield
WF2 0XE

Telephone No: 01924 834969
E-mail address: paul.smith@ypo.co.uk

CONTACT OFFICER: MATTHEW HIRST, FINANCIAL CONTROLLER

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WF2 0XE

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APPENDICES:

Appendix 1: Reconciliation of Deficit on Provision of Service to Year End Profits
Appendix 2: Draft Statement of Account 2018

Appendix 1: Reconciliation of Deficit on Provision of Service to Year End Profits

2018 Profit and Loss Reconciliation

| | Comp I&E | MGT A/c P&L | Performance Report | Diff to P&L | Diff to Performance report |
|--|-----------------|-----------------|--------------------|-----------------|----------------------------|
| Invoiced Turnover | 112,881 | 112,881 | 112,881 | (0) | (0) |
| Cost of Sales | (81,239) | (81,239) | (81,239) | (0) | (0) |
| Gross Margin | 31,642 | 31,642 | 31,642 | (0) | (0) |
| Discounts | 137 | 137 | 137 | 0 | 0 |
| Rebates | 4,773 | 4,773 | 4,773 | 0 | 0 |
| Other Income | 1,990 | 1,990 | 1,990 | 0 | (0) |
| Gross Surplus | 38,542 | 38,543 | 38,542 | (0) | (0) |
| Operating Expenses | | | | | |
| Employees | (17,719) | (17,590) | (17,601) | (129) | (118) |
| Premises | (984) | (956) | (956) | (28) | (28) |
| Supplies and Services | (7,051) | (6,223) | (6,213) | (827) | (837) |
| Transport | (4,685) | (4,681) | (4,681) | (4) | (4) |
| S.L.A. Costs | (127) | (127) | (127) | 0 | 0 |
| Financial and Miscellaneous | (16) | (16) | (16) | 0 | 0 |
| Depreciation and revaluation increase/(decrease) | (191) | (424) | (411) | 233 | 220 |
| Pension service gain(cost) net of charges made to the general fund | (2,138) | | | (2,138) | (2,138) |
| Net Operating Expenditure | (32,912) | (30,018) | (30,006) | (2,894) | (2,905) |
| Surplus/(deficit) on trading operations | 5,630 | 8,525 | 8,536 | (2,894) | (2,906) |
| Financing and investment income and expenditure | | | | | |
| Pensions Interest Cost and Expected Return on Pension Assets | (613) | | | (613) | (613) |
| Interest Receivable | 47 | 47 | 47 | 0 | (0) |
| Dividend paid | (7,253) | | | (7,253) | (7,253) |
| Surplus/(Deficit) on provision of service | (2,189) | 8,571 | 8,584 | (10,760) | (10,773) |

Reserve expenditure £129K, plus (£11K) reduction in accumulated absence provision.

Reserve expenditure £28K.

Reserve expenditure £827K, plus £10K increase in year end accruals.

Reserve expenditure £4K.

Revaluation gain of £233K, less additional depreciation relating to finance lease £13K.

YORKSHIRE PURCHASING ORGANISATION



**PRE - AUDIT
STATEMENT
OF ACCOUNTS
2018**

41 Industrial Park • Wakefield • WF2 OXE

Narrative Statement by the Managing Director

1. INTRODUCTION

This document is the Statement of Accounts for the Yorkshire Purchasing Organisation. The Statement of Accounts shows the Organisation's financial performance for the year ended 31st December 2018. The Narrative Statement provides a guide to the most significant matters in the financial statements.

The Yorkshire Purchasing Organisation (YPO) was established in 1974 to fulfil the supplies requirements of a number of local authorities. The enabling Act of Parliament for the organisation is the Local Authorities (Goods and Services) Act 1970 and its objectives are for the supply of goods and procurement of services to the public sector.

There are currently 13 founder member authorities and sixty five associate member authorities of YPO as of 31st December 2018, although the Organisation trades extensively outside the membership area. Management of the organisation reports periodically to a Management Committee of two elected members from each founder member authority.

The membership consists of:

Founder Member Authorities

| | |
|---------------------|-----------------------|
| Barnsley MBC | North Yorkshire CC |
| Bolton MBC | Rotherham MBC |
| City of Bradford MC | St Helens MBC |
| MB of Calderdale | City of Wakefield MDC |
| Doncaster MBC | Wigan MBC |
| Kirklees MC | City of York Council |
| Knowsley MBC | |

Associate Member Authorities

first year of membership

| | |
|--|------|
| Bury Metropolitan Borough Council | 2011 |
| Cumbria City Council | 2011 |
| Durham City Council | 2011 |
| Leeds City Council | 2011 |
| North East Lincolnshire Council | 2011 |
| North Lincolnshire Council | 2011 |
| Sheffield City Council | 2011 |
| Cheshire East Council | 2012 |
| East Riding of Yorkshire Council | 2012 |
| Hull City Council | 2012 |
| Rochdale Metropolitan Borough Council | 2012 |
| South Yorkshire Fire and Civil Defence Authority | 2012 |
| South Yorkshire Police Authority | 2012 |
| Stockport Metropolitan Borough Council | 2012 |
| Trafford Council | 2012 |
| Warrington Borough Council | 2012 |
| West Yorkshire Fire and Civil Defence Authority | 2012 |
| West Yorkshire Police Authority | 2012 |
| Blackpool Borough Council | 2013 |
| Lancashire Fire & Rescue Service | 2013 |
| London Borough of Hillingdon | 2013 |
| Malvern Hills District Council | 2013 |
| Manchester City Council | 2013 |
| Northumberland County Council | 2013 |
| Staffordshire City Council | 2013 |
| West Midlands Fire & Rescue Authority | 2013 |
| Wiltshire Fire and Rescue Service | 2013 |
| Wyre Forest District Council | 2013 |
| Birmingham City Council | 2014 |
| Kettering Borough Council | 2014 |
| London Borough of Harrow | 2014 |
| Tameside Council | 2015 |
| Lancaster City Council | 2015 |
| Walsall Council | 2015 |
| Cheshire Fire and Rescue Service | 2016 |
| Coventry City Council | 2016 |
| Craven District Council | 2016 |

Narrative Statement by the Managing Director

| | |
|--|------|
| Fylde Council | 2016 |
| Greater Manchester Fire and Rescue | 2016 |
| Greater Manchester Police | 2016 |
| Halton Borough Council | 2016 |
| Lancashire Police | 2016 |
| London Borough of Brent | 2016 |
| London Borough of Hackney | 2016 |
| London Borough of Waltham Forest | 2016 |
| Liverpool City Council | 2016 |
| Merseyside Fire and Rescue Service | 2016 |
| Merseytravel | 2016 |
| Oldham Council | 2016 |
| Salford City Council | 2016 |
| Sefton Borough Council | 2016 |
| Solihull Metropolitan Borough Council | 2016 |
| Wyre Council | 2016 |
| Allerdale Borough Council | 2017 |
| Devon County Council | 2017 |
| London Borough of Camden | 2017 |
| London Borough of Haringey | 2017 |
| London Borough of Westminster | 2017 |
| Pendle Borough Council | 2017 |
| Buckinghamshire County Council | 2018 |
| Harrogate Borough Council | 2018 |
| Humberside Police Service | 2018 |
| North Yorkshire Police Service | 2018 |
| Police and Crime Commissioner for Merseyside | 2018 |
| Telford and Wrekin Council | 2018 |

Certain services, including legal, treasury and internal audit, are provided by the City of Wakefield MDC in accordance with arrangements agreed by the Management Committee.

Associate membership allows for attendance at the public section of all committee meetings but does not carry voting rights.

2. ACCOUNTABILITY AND FINANCIAL REPORTING

There is no longer a statutory requirement for YPO, as a Joint Committee, to have an external audit. However, in March 2016 the Management Committee and Section 151 Officer of the lead authority agreed that YPO should continue to prepare, each year, a statement of accounts in accordance with the C.I.P.F.A Code of Practice that is subject to an external audit.

As a result this will be a non-statutory audit meaning that compliance with the Accounts and Audit Regulations 2015 is not mandatory.

We have continued to categorise our Reserves as "Usable" and "Unusable" in line with the C.I.P.F.A Code of Practice. This is purely for presentational needs and we acknowledge that any powers attributed to this classification no longer applies to the organisation.

3. THE STATEMENTS

The financial activity of the Organisation in relation to the service it provides is shown through a number of key financial statements and notes:

Core Statements

The Movement In Reserves Statement shows the movement in year on the different reserves held by the Organisation.

The Comprehensive Income and Expenditure Account summarises the income and expenditure of the Organisation during the year.

The Balance Sheet shows the value as at the 31st December 2018 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

Narrative Statement by the Managing Director

The Cash Flow Statement shows the changes in cash and cash equivalents of the Organisation during the reporting period. The statement shows how the Organisation generates and uses cash and cash equivalents by classifying cash flows between operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations of the Organisation are performing. Investing activities represent the extent to which cash inflows have been made for resources which are intended to contribute to the Organisations future operations.

The Statement of Responsibilities for the Statement of Accounts sets out the respective responsibilities of the organisation and the Chief Finance Officer at WMDC for the Statement of Accounts.

The Annual Governance Statement sets out the framework designed to ensure that the organisation operates a sound system of internal control which facilitates the effective exercise of its operations, and which includes arrangements for the management of risk. Whilst it is not a requirement to be part of this Statement of Accounts it is attached as appendix A to this statement to aid the user to better understand the governance arrangements in force within the Organisation.

4. FINANCIAL SUMMARY

The 2018 budget approved in November 2017 was for a turnover of £112m and a surplus of £8.2m, excluding any income for pensions interest or expenditure financed from earmarked reserves.

Invoiced sales for the year are £112.9m and the reported surplus on trading of £8.571m is over the budget set of £8.2m by £0.371m, this excludes any income for pensions interest or expenditure financed from earmarked reserves.

Turnover targets for the year included growth aspirations in Education, despite difficult markets and decline in spend over the last 2 years, and geographical growth in the newer territories of the south of England and London Boroughs. These targets were met and exceeded with combined growth in Primary and Secondary Education of 4.8% against a background of overall market growth of 3.6% (BESA/C3 Education – Resources in English Maintained Schools research). Declines in turnover were experienced in the Early Years and Local Authority sectors, and overall the Food Category was affected significantly by adverse weather conditions and mainly changes to Multi Academy Trust purchasing decisions, although the increases in Education spend outweighed these.

Income from stock and framework contracts at £4.8m were under the budget of £5.6m, mainly due to our Emergency Services, Stock and Furniture categories under-achieving. The 2018 numbers have also been adversely impacted by an over accrual at the 2017 year end due to Q4 framework activity not materialising as expected across these areas. The year end accrual for 2018 has been prudently set to avoid a re-occurrence of this in 2019.

Operating costs for 2018 were £29.971m, £0.108m over budget and £0.828m under 2017. The main overspends in the year were across Transport and Stocktake Adjustments. Within transport our hired carrier costs were greater than expected due to a combination of increased driver's sickness and higher stores sales volumes both of which resulted in a higher number of consignments being fulfilled by third parties. The increase in stock adjustments is linked to the introduction of our Perpetual Inventory team from January which has brought with it greater volumes of items counted in the year. Partially offsetting these overspends are people savings due to the vacancies that we have held during the year.

In 2018 £0.989m of expenditure was funded through the internal earmarked reserve funds. This was planned expenditure approved at the November 2016 and November 2017 Management Committees.

Trade debtors are at £8.9m, the same as 2017. Despite higher sales in the year the similar amounts in year end debtors highlights the effective credit control processes in place.

The net assets of the organisation as at 31st December 2018 are £14.483m, a slight decrease on the £14.687m in last years accounts. Net current assets have remained stable and are at a similar position to that of last year with slight decreases in cash and debtor balances corresponding to the increase in inventories and reduction in creditors. In the year we introduced our Treasury Management Policy which as at 31st December saw £5m invested with various local authorities in accordance with the agreed policy. The objectives of the Treasury Management policy are to minimise the risk associated with our cash holdings and to maximise the potential returns from our cash position.

On the Balance Sheet is also an amount of £0.5m shown as Debtors: Amounts due after more than one year, this represents a loan issued to one of our related parties, YPO Procurement Holdings. A loan agreement has been drawn up and the full amount plus the accrued daily interest is repayable in full by the end of 2030.

Narrative Statement by the Managing Director

Cash flow movement in the year has reduced the cash at bank balances by £1.2m. This reflects the operating performance of the organisation in the year and reconciles to the in-year profits, dividends paid, capital expenditure and loans issued. It also reflects the movements in stock, debtors and creditors for the year. The loans issued relates to £0.5m paid to YPO Procurement Holdings Limited, the purpose of the loan was to enable YPO Procurement Holdings Limited to invest in EdTech Impact Limited in the year.

£0.5m of Capital Expenditure was incurred in the year for the purchase of new fleet, warehouse equipment and software assets.

An agreed dividend distribution of £7.492m for the trading year 2017 was distributed in September 2018. This distribution, as last year, included all customers.

5. RETIREMENT BENEFITS

The value of the organisation's retirement benefits liability as at 31 December 2018 was £26.5 million (31 December 2017 £25.6 million). This increase is due to the reduction in the funds asset returns over the accounting period outweighing an increase in the discount rate assumptions used.

The employer's contribution rate was 14.4% in 2018. (see note 7 to Core Financial Statements - Retirement Benefits)

International Accounting Standard (IAS) 19 - Employee Benefits which covers pension accounting was revised in 2011 and applies to the Organisation's statements from 2014 onwards.

6. SIGNIFICANT MATTERS

The budget submission for the 2018 financial year was given approval by the Management Committee at the meeting in November 2017. The budget was built on assumptions of sales growth on our core business from 2017 and an increase in our contractual rebate income for the year. As part of our future proofing programme we also incorporated a net savings target of £1.1m into our overheads budget for 2018, this along with the expected inflation costs for the year resulted in a budgeted operating costs to sales ratio of 25.40% .

A dividend distribution of £7.492m declared in respect of the 2017 trading year, was distributed in September 2018. This included a non cash loyalty bonus of £1.5m payable to individual customers by way of a voucher to be used against future purchases of product.

YPO Procurement Holdings and its subsidiary YPO Supplies Ltd began trading with YPO Joint Committee in 2014. Board members for YPO Procurement Holdings and YPO Supplies are also members of the Joint Committee board and therefore all transactions in 2018 between the above companies are classed as related party transactions.

7. MEDIUM TERM FINANCIAL STRATEGIES

The 2019 Budget was approved by the Management Committee in November 2018 for the second year of our three year strategy. This strategy focuses on relevance and the importance of YPO remaining relevant not only to their owners and various customer groups but also to an ever changing marketplace. This will ensure we remain competitive whilst continuing to deliver value for money to all public sector organisations when procuring goods and services.

A medium term financial strategy has also been drawn up alongside the 2019 budget, this assesses the implications today's actions will have over the next 2-5 years and what impact it will have on future profits and financial position.

Within the medium term financial strategy we have prudently estimated that our sales demand remains at current volumes plus inflation over the planning period. This along with an expected growth within our rebates business and a continued focus on efficiencies within our overheads should see net profits increased by 2023.

Simon Hill
Managing Director

Statement of Responsibilities

THE ORGANISATION'S RESPONSIBILITIES

The Organisation is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Organisation that officer is the Chief Finance Officer of the Serving Authority, Wakefield MDC. Day to day financial management is the responsibility of the Managing Director YPO.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

THE RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER

The Chief Finance Officer is responsible for the preparation of the Organisation's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the code).

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the local authority Code.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date.
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

CHIEF FINANCE OFFICER

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Yorkshire Purchasing Organisation at 31st December 2018 and its Income and Expenditure for the year then ended.

.....

NEIL WARREN
Chief Finance Officer

APPROVAL OF THE ACCOUNTS

As the Chair of the body considering the Yorkshire Purchasing Organisation's Statement of Accounts for 2018, I certify that the Accounts have been approved by the Management Committee and are authorised for issue.

.....

Cllr LES SHAW
Chairperson YPO Management Committee

Auditors Opinion

Auditors Opinion

MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement in year on the different reserves held by the Organisation. The surplus (deficit) on Operations line shows the true economic cost of operational activity in the year more details of which, are shown in the Comprehensive Income and Expenditure Statement.

The Net increase/(decrease) before transfer to Earmarked Reserves line shows the General Fund Balance prior to any discretionary transfers to or from earmarked reserves applied by the Organisation.

| 2017 Re-stated | £000's | | | | | | | | | | |
|---|-------------------------|-----------------------------|--|---------------------------|--|---------------------|----------|----------------|-----------------------|-------------------------|----------------|
| | Usable Reserves | | | Unusable Reserves | | | | | Total Usable reserves | Total Unusable reserves | Total Reserves |
| General Fund Balance | Capital Receipt Reserve | Internal Investment Reserve | Joint Committee Capital Adjustment Account | Earmarked Pension Reserve | Earmarked Accumulated absences account | Revaluation Reserve | | | | | |
| Balance as at 31 December 2016 | 28,818 | 85 | 1,770 | 10,545 | (29,895) | (111) | 0 | 30,674 | (19,461) | 11,213 | |
| Movement in Reserves during 2017 | | | | | | | | | | | |
| Surplus or (Deficit) on Operations | (3,552) | | | | | | | (3,552) | 0 | (3,552) | |
| Other Comprehensive Income | | | | | 7,016 | | 0 | 0 | 7,016 | 7,016 | |
| Total Comprehensive Expenditure and Income | (3,552) | 0 | 0 | 0 | 7,016 | 0 | 0 | (3,552) | 7,016 | 3,464 | |
| Adjustments between accounting basis and funding basis under regulation | | | | 10 | | | | | | | |
| Net Increase / (Decrease) before transfer to Earmarked Reserves | (3,552) | 0 | 0 | 10 | 7,016 | 0 | 0 | (3,552) | 7,026 | 3,474 | |
| Transfer (to) / from Earmarked Reserves | 2,994 | | (74) | (228) | (2,692) | | 0 | 2,920 | (2,920) | 0 | |
| Increase / (Decrease) in Movement in Year | (557) | 0 | (74) | (218) | 4,324 | 0 | 0 | (632) | 4,106 | 3,474 | |
| Balance as at 31 December 2017 | 28,261 | 85 | 1,696 | 10,327 | (25,571) | (111) | 0 | 30,042 | (15,355) | 14,687 | 13 |

| 2018 | £000's | | | | | | | | | | |
|---|-------------------------|-----------------------------|--|---------------------------|--|---------------------|------------|----------------|-----------------------|-------------------------|----------------|
| | Usable Reserves | | | Unusable Reserves | | | | | Total Usable reserves | Total Unusable reserves | Total Reserves |
| General Fund Balance | Capital Receipt Reserve | Internal Investment Reserve | Joint Committee Capital Adjustment Account | Earmarked Pension Reserve | Earmarked Accumulated absences account | Revaluation Reserve | | | | | |
| Balance as at 31 December 2017 | 28,261 | 85 | 1,696 | 10,327 | (25,571) | (111) | 0 | 30,042 | (15,355) | 14,687 | |
| Movement in Reserves during 2018 | | | | | | | | | | | |
| Surplus or (Deficit) on Operations | (2,189) | | | | | | | (2,189) | 0 | (2,189) | |
| Other Comprehensive Income | | | | | 1,829 | | 156 | 0 | 1,985 | 1,985 | |
| Total Comprehensive Expenditure and Income | (2,189) | 0 | 0 | 0 | 1,829 | 0 | 156 | (2,189) | 1,985 | (204) | |
| Adjustments between accounting basis and funding basis under regulation | | | | | | | | 0 | 0 | 0 | |
| Net Increase / (Decrease) before transfer to Earmarked Reserves | (2,189) | 0 | 0 | 0 | 1,829 | 0 | 156 | (2,189) | 1,985 | (204) | |
| Transfer (to) / from Earmarked Reserves | 3,528 | | (1,086) | 298 | (2,751) | 11 | 0 | 2,442 | (2,442) | 0 | |
| Increase / (Decrease) in Movement in Year | 1,339 | 0 | (1,086) | 298 | (922) | 11 | 156 | 253 | (457) | (204) | |
| Balance as at 31 December 2018 | 29,600 | 85 | 610 | 10,625 | (26,493) | (100) | 156 | 30,295 | (15,812) | 14,483 | 13 |

*2017 has been re-stated to increase Capital Expenditure in the year by £41K. The costs, which were funded through the Internal Investment Reserve, were for the first installment of new warehouse equipment and were expensed against the Profit and Loss account. The re-statement has reduced both the deficit on the provision of service and the transfer between the General fund and CAA. The net result of the adjustment is an increase in the closing balances of the CAA and Total Reserves by £41K.

Comprehensive Income and Expenditure Account

| Re-stated 2017 £'000 | | 2018 £'000 | <u>Note</u> |
|----------------------------|--|-----------------|-------------|
| 110,965 | <i>Invoiced Turnover</i> | 112,881 | 1(b),6 |
| <u>(80,316)</u> | <i>Cost of Sales</i> | <u>(81,239)</u> | |
| 30,649 | <i>Gross Margin</i> | 31,642 | |
| 128 | Discounts | 137 | |
| 5,299 | Rebates | 4,773 | 1(b),6 |
| 2,216 | Other Income | 1,990 | 1(b),6 |
| <u>38,292</u> | <i>Gross Surplus</i> | <u>38,542</u> | |
| | <i>Operating Expenses</i> | | |
| (18,001) | Employees | (17,719) | |
| (1,224) | Premises | (984) | |
| (6,809) | Supplies and Services | (7,051) | |
| (4,608) | Transport | (4,685) | |
| (127) | S.L.A. Costs | (127) | |
| (267) | Financial and Miscellaneous | (16) | |
| (270) | Depreciation and revaluation increase/(decrease) | (191) | 1(e),8 |
| (1,909) | Pension service gain(cost) net of charges made to the general fund | (2,138) | 1(h),7 |
| <u>(33,214)</u> | <i>Net Operating Expenditure</i> | <u>(32,912)</u> | |
| <u>5,078</u> | <i>Surplus/(deficit) on trading operations</i> | <u>5,630</u> | |
| | <i>Other Operating expenditure</i> | | |
| 0 | Gain/(Loss) on Disposal of Property, Plant and Equipment | 0 | |
| <u>0</u> | | <u>0</u> | |
| | <i>Financing and investment income and expenditure</i> | | |
| (783) | Pensions Interest Cost and Expected Return on Pension Assets | (613) | 1(h),7 |
| 17 | Interest Receivable | 47 | |
| (7,864) | Dividend paid | (7,253) | |
| <u>(8,629)</u> | | <u>(7,820)</u> | |
| <u>(3,552)</u> | <i>Surplus/(Deficit) on provision of service</i> | <u>(2,189)</u> | |
| | <i>Other Comprehensive income and expenditure</i> | | |
| 7,016 | Actuarial gains / (losses) on pension assets / liabilities | 1,829 | |
| 0 | Gains / (losses) on revaluations of PPE and depreciation | 156 | |
| <u>7,016</u> | | <u>1,985</u> | |
| <u>3,464</u> | <i>Total comprehensive Income and Expenditure</i> | <u>(204)</u> | |

*2017 has been re-stated to increase Capital Expenditure in the year by £41K. The costs, which were funded through the Internal Investment Reserve, were for the first installment of new warehouse equipment and were expensed against the Profit and Loss account. The re-statement has reduced the operating expenditure in the year by £41K and therefore subsequently increased the surplus/(deficit)s on trading operations and provision of service and the Total comprehensive Income and Expenditure by the same amount.

BALANCE SHEET

The Balance Sheet shows the value as at 31st December 2018 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

| Re-stated 31st Dec 2017 £'000 | | 31st Dec 2018 £'000 | Note |
|--------------------------------------|--|------------------------|-----------|
| ASSETS AND LIABILITIES | | | |
| Long term Assets | | | |
| Property, Plant and Equipment | | | |
| 9,000 | Land and Buildings | 9,228 | 1(e),8 |
| 653 | Vehicles, Furniture & Equipment | 1,029 | 1(e),8 |
| 0 | Intangible Assets | 70 | 1(e),8 |
| 9,653 | Total Long Term Assets | 10,328 | |
| Current Assets | | | |
| 12,749 | Inventories | 14,456 | 1(m),9 |
| 14,654 | Short term debtors | 13,137 | 1(u),10 |
| 11,183 | Cash and cash equivalents | 9,954 | |
| 38,587 | Total Current Assets | 37,547 | |
| 0 | Debtors: Amounts due after more than one year | 500 | |
| Current Liabilities | | | |
| (7,982) | Short term creditors | (7,247) | 1(v),11 |
| (7,982) | Total Current Liabilities | (7,247) | |
| 30,605 | Net Current Assets | 30,300 | |
| Long term Liabilities | | | |
| 0 | Liability relating to Finance Leases | (151) | |
| (25,571) | Liability relating to Defined Benefit Pension Scheme | (26,493) | 1(h),7 |
| 14,687 | Net Assets | 14,483 | |
| Financed by: | | | |
| Usable Reserves | | | |
| 28,261 | General Fund | 29,600 | |
| 85 | Usable Capital Receipts Reserve | 85 | 1(g),13 |
| 1,696 | Internal Investment reserve | 610 | 1(g),13 |
| Unusable Reserves | | | |
| 10,327 | Joint Committee Capital Adjustment Account | 10,625 | 1(g),13 |
| (25,571) | Pension Reserve | (26,493) | 1(h),7,13 |
| (111) | Earmarked Accumulated Absences Account | (100) | 1(g),13 |
| 0 | Revaluation Reserve | 156 | 1(g),13 |
| 14,687 | Total Reserves | 14,483 | |

*2017 has been re-stated to increase Capital Expenditure in the year by £41K. The re-statement has increased the value of Vehicles, Furniture and Equipment within Fixed Assets by £41K and also increased the closing balance of the Joint Committee Capital Adjustment Account by £41K.

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash, and cash equivalents, of the Organisation during the reporting period. The statement shows how the Organisation generates and uses cash, and cash equivalents, by classifying cash flows between operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations of the Organisation are performing. Investing activities represent the extent to which cash inflows have been made for resources which are intended to contribute to the Organisation's future operations.

Re-stated

| | 2017 | | | 2018 |
|--|----------------|--|--|----------------|
| | £'000 | | | £'000 |
| | (3,552) | Net surplus/(deficit) on the provision of service | | (2,189) |
| | | Adjustment to the net surplus/(deficit) for non cash movements | | |
| | 270 | Depreciation and revaluation increase/(decrease) | | 177 |
| | (537) | (Increase)/Decrease in Inventories | | (1,707) |
| | (2,301) | (Increase)/Decrease in Debtors | | 1,517 |
| | 2,692 | (Increase)/Decrease in Pension Liability | | 2,751 |
| | 439 | Increase/(Decrease) in Creditors | | (790) |
| | (1,212) | Redemption of loyalty vouchers | | (1,132) |
| | (650) | | | 817 |
| | | Adjustments for items included in the net surplus/(deficit) that are financing/investing activities | | |
| | 7,864 | Proceeds from sale of PPE | | 7,253 |
| | 7,864 | Dividend payment | | 7,253 |
| | 3,662 | Net cash flows from operating activities | | 5,881 |
| | | Investing Activities | | |
| | (41) | Purchase of PPE | | (489) |
| | 0 | Proceeds from Sale of PPE | | 0 |
| | (41) | | | (489) |
| | | Financing Activities | | |
| | 0 | Loans issued | | (500) |
| | (6,651) | Dividends paid to Members | | (6,122) |
| | (6,651) | | | (6,622) |
| | (3,031) | Net Increase/(Decrease) in Cash and Cash Equivalents | | (1,229) |
| | 14,214 | Cash and Cash Equivalents at the beginning of the reporting period | | 11,183 |
| | 11,183 | Cash and Cash Equivalents at the end of the reporting period | | 9,954 |

| Note on operating activities | | |
|-------------------------------------|--|-----------|
| | The cash flows from operating activities include the following items | |
| 17 | Interest Receivable | 47 |
| 17 | | 47 |

**2017 has been re-stated to increase Capital Expenditure in the year by £41K, the costs had been expensed against the Profit and Loss Account. The re-statement has reduced the net deficit on the provision of service by £41K and therefore increased the net cash flows from operating activities by £41K. The purchase of PPE within investing activities has also increased by £41K resulting in the net decrease in cash for the year remaining unchanged.*

Notes to the Core Financial Statements

The following notes provide more detailed information in order to assist understanding of the main financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL PRINCIPLES

As a Joint Committee, YPO is no longer required to comply with the Accounts and Audit regulations 2015. However, it has been agreed that YPO will continue to produce a statement of accounts in accordance with the C.I.P.F.A Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

The Organisation recognises that the Comprehensive Income and Expenditure Statement does not fully comply with the Code of Practice by not including a service analysis. This is due to the Organisation being a single service business operation with no reliance on external funding, or having any direct impact on the finances of any member authority. Additionally the Organisation's status as a joint committee prevent it from taking advantages of certain statutory overrides contained within the code.

In this respect, certain aspects of the code are redundant. In each of these cases the Organisation has adopted policies which it believes present fairly the financial position of the Organisation.

The following policies have been adopted in compiling the accounts:

Fundamental Accounting Concepts:

- The accounts have been prepared on a historical cost basis, except that certain categories of assets are re-valued at regular intervals.
- The revenue and capital accounts are maintained on an accruals basis. This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received. Income is also matched with associated costs and expenses as far as the relationship can be established or justifiably assumed.
- Consistent accounting policies have been applied both within the year and between years. Where accounting policies are changed, the reason and effect have been separately disclosed.
- Income has only been recognised within the accounts where there is a reasonable certainty, and proper allowances have been made for all foreseeable losses and liabilities.
- The accounts have been prepared on a going concern basis.
- The accounting statements have been prepared so as to reflect the reality or substance of the transactions and activities underlying them, rather than their formal legal character.
- As allowed under the Code the concept of materiality has been utilised in the process of preparing the accounts, such that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that in aggregate they would not affect the interpretation of the accounts by an informed reader.
- Where estimating techniques are required to enable the accounting practices adopted to be applied, the techniques which have been used are, in YPOs view, appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, where practical, the effect on the results for the current period are separately disclosed, Note 4 to the core financial statements provides further details.
- In accordance with the Code, where an accounting treatment is prescribed by law, then it has been applied, even if it contradicts accounting standards or generally accepted accounting concepts.

a. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular debtors and creditors for revenue and capital transactions are accrued, except for certain cases which are not considered material. For items of this nature, a consistent approach is adopted.

b. TURNOVER

Turnover is the value of invoiced sales during the year, adjusted for the value of deliveries prepared to 31st December for which invoices were not raised until January. Rebates refer to the value of commission earned on contractual activity in the year. Other income includes marketing support for catalogue production and promotion.

c. OVERHEADS

The Organisation is a single service entity and as such all overhead costs are included in the revenue account inclusive of accruals prepayments for the period to which they relate.

d. COMPONENTISATION OF NON CURRENT ASSETS

Non Current assets valued through the Organisation's five year programme of valuations are assessed for any significant components, where the value of the asset is greater than £1 million on revaluation. If an individual component's value is deemed by the business to be significant in relation to the total value of the asset then that component will be depreciated separately.

Capital expenditure is monitored throughout the year and included in the budget and business planning process to identify

Notes to the Core Financial Statements

replacement or changes of a significant component on non current assets.

The carrying value of any component being replaced will be charged to the revenue account as a disposal. This balance is then reversed out of the General Fund in the Movement in Reserves Statement and posted to the Joint Committee Capital Adjustment Account.

e. NON CURRENT ASSETS

- i) Expenditure on the acquisition, creation or enhancement of non current assets , with a value in excess of £5,000, is capitalised on an accruals basis, provided they have an estimated life in excess of one year. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits is charged as an expense when it is incurred. All expenditure on non current assets that is capitalised is recognised in the Organisation's Asset Register and Balance Sheet and depreciated over the useful life of the asset.
- ii) Non current assets are valued at purchase price plus any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- iii) Non-current Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from the fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified the accounting treatment is that the carrying amount of the asset is written down against any revaluation gain in the Revaluation Reserve or where there is no, or insufficient balance in the Revaluation Reserve the asset is written down against the Comprehensive Income and Expenditure Account

The latest valuation date of land and buildings was 30th November 2018, and was carried out by J Duck FRICS of NPS Humber Ltd.

- iv) Non-current 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 an impairment of a non current asset has been recognised it is accounted for as a charge in the Comprehensive Income and Expenditure Statement where there is no or insufficient accumulated gains in the Revaluation Reserve against which all losses can be written off.

Where an impairment loss is reversed subsequently, the reversal is credited to 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.

- v) Where a revaluation loss on a non current asset is recognised as part of a review or a valuation exercise it is accounted for as a charge against the Comprehensive Income and Expenditure Account where there is no or insufficient accumulated gains in the Revaluation Reserve which all losses can be written off.
- vi) When a non-current asset is disposed of, or decommissioned, any gain or loss on the disposal is credited or charged to the Comprehensive Income and Expenditure Statement. The gain or loss is calculated by reference to the difference between the sale proceeds of the asset and the value of the asset in the balance sheet plus any material costs of disposal. Any revaluation gains in the Revaluation Reserve, relating to the asset disposed of, are transferred to the Joint Committee Capital Adjustment Account.

Receipts from disposals are credited to the Usable Capital Receipts Reserve and can be used for new capital investment. Receipts are appropriated to the Usable Capital Receipts Reserve from the Movement in Reserves Statement.

- vii) Depreciation has been provided for using the straight-line method on Buildings (excluding land), Vehicles and Equipment and is charged from the time the asset becomes operational. The useful lives of the various assets held on the Asset Register are as follows:

| Freehold Buildings | 2018 |
|--------------------------------|----------------|
| 41 Industrial Park | 43 years |
| Flanshaw Way | 39 years |
| Motor Vehicles | up to 5 years |
| Warehouse and Office Equipment | up to 15 years |
| Computers | up to 5 years |

Where an item of Property, Plant and Equipment 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 the current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Joint Committee Capital Adjustment Account.

f. INTANGIBLE FIXED ASSETS

Intangible fixed assets are assets that do not have any physical substance but which the Organisation controls access to the future economic benefits derived from them, either through custody or legal protection.

Notes to the Core Financial Statements

Expenditure on intangible assets is subject to the same recognition criteria as tangible fixed assets as stated in note d. Intangible assets will be brought on to the Balance Sheet at cost and amortised on a straight line basis over the period for which benefit is received. It is assumed there will be nil residual value. Annual reviews of the value of intangible fixed assets will be undertaken.

Amortisation has been provided for using the straight line method on Intangible fixed assets and is charged from the time the asset becomes operational. The useful life of the Intangible fixed assets held on the Register are as follows:

Internally generated & Software intangible assets - IT & Website Development/Testing & Project management - 3 years

g. RESERVES

The Organisation sets aside specific amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure financed from a reserve is incurred, it is charged to the Consolidated Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement.

The Organisation differentiates between usable and unusable reserves on the basis contained within the Code however certain statutory overrides allowable by statute to Local Authorities and contained within the Code are not available to a joint committee. Where this is the case the Organisation has voluntarily adopted the principles of the Code.

h. EMPLOYEE BENEFITS

The Organisation accounts for employee benefits in accordance with the requirements of IAS 19.

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 sick leave, bonuses and non monetary benefits (e.g. cars) for current employees and are recognised as an expense in the year in which employees render service. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at average salary rate. The accrual is charged to the Comprehensive Income and Expenditure Statement 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.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Organisation to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accrual basis to the relevant line in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Organisation to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Organisation are members of the Local Government Pensions Scheme known as the West Yorkshire Pension Fund and administered by Bradford Council. The scheme is a defined benefit scheme providing employees with a retirement lump sum and pension.

The Local Government Pension Scheme

The liabilities of the West Yorkshire Pension Fund attributable to the Organisation are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.9% on funded liabilities and 2.9% on unfunded liabilities (based on a weighted average of "spot yields" on AA rated corporate bonds).

The assets of West Yorkshire Pension Fund attributable to the Organisation are included in the Balance Sheet at their fair value:

- . quoted securities - current bid price
- . unquoted securities - professional estimate
- . unitised securities - current bid price
- . property - market value

The change in the net pensions liability is analysed into seven components:

Current service cost - the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements

Past service cost - the increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Comprehensive Income and Expenditure Statement.

Interest Cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid debited to the Comprehensive Income and Expenditure Statement

Expected return on Assets - the annual investment return on the fund assets attributable to the Organisation, based on the average of the expected long term return credited to the Comprehensive Income and Expenditure Statement.

Gains or losses on settlements and curtailments - the result of actions to relieve the Organisation of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited or credited to the Comprehensive Income and Expenditure Statement.

Actuarial Gains and Losses - Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve.

Contributions paid to the West Yorkshire Pension Fund - cash paid as employers contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Organisation to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Organisation has limited powers to make discretionary awards of retirement benefits in the event of early retirements. 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 Scheme.

i. TAXATION

Local authorities are exempt from Income, Corporation and Capital Gains Taxes. Income and expenditure normally excludes amounts relating to Value Added Tax (VAT), as VAT collected is payable to HM Revenue and Customs and VAT paid is normally recoverable from them. Exceptionally, if VAT is irrecoverable it is charged to revenue expenditure or capital expenditure as appropriate.

j. EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

Any material exceptional or extraordinary items are separately disclosed in the accounts.

Material prior period adjustments arising from changes in accounting policies or from the correction of fundamental errors have been accounted for by restating the comparative figures in the financial statements and notes, together with the cumulative effect on reserves. The effect of material prior period adjustments is disclosed separately as a note to the Core Financial Statements.

k. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are reflected in the accounts up to the date when the Statement of Accounts was authorised for issue and are accounted for in accordance with IAS10.

Where an event arises which provides additional evidence relating to conditions existing at the Balance Sheet date, or which indicates that application of the going concern concept to the Organisation is not appropriate (an adjusting event), then adjustments have been made to the accounts, where the amounts are material .

Any material event, which concerns conditions that did not exist at the Balance Sheet date (a non-adjusting event), has been disclosed as a note to the Core Financial Statements. The note states the nature of the event and, where possible, an estimate of its financial effect.

l. INTEREST RECEIVABLE/PAYABLE

All Interest is recognised in the Financial Statements during the period in which it became due for payment to or by the Organisation.

m. INVENTORIES

Inventories are valued at average cost, and shown in the accounts at the lower of cost or net realisable value.

n. LEASES

The Organisation accounts for leases in accordance with the requirements of IAS17.

YPO accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to YPO. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding lease obligation (deferred liability). Fixed Assets held under finance leases are accounted for as part of Property, Plant and Equipment.

Notes to the Core Financial Statements

Rentals payable under operating leases are charged to revenue on a straight line basis over the term of the lease even if this does not match the pattern of payments (e.g. quarterly billing straddling an accounting period).

o. CONTINGENT LIABILITIES & ASSETS

Contingent liabilities are not accrued in the accounting statements. Material contingent liabilities are identified in a note to the core financial statements if there is a possible obligation, which may require a payment or transfer of economic benefits.

p. PROVISIONS

Provisions are recognised in the accounts in accordance with IAS 37, where:

- i) The Organisation has a present obligation (legal or constructive) as a result of a past event,
- ii) It is probable that a transfer of economic benefits will be required to settle the obligation, but the timing of the transfer is uncertain; and
- iii) A reliable estimate can be made of the amount of the obligation.

Contributions to provisions are charged to the appropriate revenue account and any subsequent expenditure arising, to which the provision relates, is charged to the provision. The level of each provision is reviewed at the year end and, if appropriate, adjusted by reversing the contribution to the provision and crediting the relevant revenue account.

Provisions are classified as long term (in excess of twelve months) and short term (less than twelve months).

q. FINANCIAL INSTRUMENTS

The Organisation's financial instruments are represented by bank balances, investments, loans receivable, inventories, trade creditors and trade debtors.

Bank balances are represented by cash balances held in UK bank accounts and are shown on the face of the Balance Sheet. Interest earned on balances are credited to the Comprehensive Income and Expenditure Statement.

Investments made with other organisations earn a fixed interest agreed at the time of investment and are for a fixed term. Interest earned on investments are credited to the Comprehensive Income and Expenditure Statement.

Loans receivable constitute loans issued by the organisation, all loans accrue interest on a daily basis and are for a fixed term.

Inventories are valued at average cost, and shown in the Balance Sheet at the lower of cost or net realisable value. Adequate measures are taken by the Organisation to minimise losses to inventory items through delivery processing, damage, obsolescence and security issues.

Trade debtors are stated in the Balance Sheet at historical cost. Irrecoverable debt is written off in the Comprehensive Income and Expenditure Statement. The Organisation is restricted to dealing with customers in the Public Sector and therefore its exposure to bad debt is minimised.

Trade Creditors are carried at historical cost and represent amounts owing to third party suppliers. Creditor accounts are settled on a cash basis when:-

- . satisfactory provision of the goods or service has been performed
- . there is reasonable evidence that the goods or service is imminent or substantially complete
- . an agreed contractual obligation exists to remit payment.

The Organisation has developed a global sourcing programme leading to increased trade with non euro zone suppliers. Every reasonable action to minimise the risk associated with sourcing product from non UK based suppliers has been taken.

r. ESTIMATION TECHNIQUES

This statement of accounts includes estimated figures for income due from suppliers in respect of marketing contributions and rebates earned on contractual business. The estimations are based on a prudent approach utilising prevailing market conditions, historical knowledge and contracted agreements.

Additionally estimates are included on valuations of certain elements of property, plant and equipment, stock and the pension fund. These estimates are provided by third parties holding relevant professional qualifications and are disclosed in the relevant notes to these accounts.

s. CASH & 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 made with other local authorities which earn a fixed interest rate over a specific term, usually for a period of 6 to 12 months.

Notes to the Core Financial Statements

t. FOREIGN CURRENCY TRANSLATION

Where business transactions are processed in a currency other than Sterling the Sterling value at the point of the currency translation has been used. Where the amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate as at the 31 December. Resulting gains or losses are recognised in the Comprehensive Income and Expenditure Statement.

u. DEBTORS

Debtors are represented by balances due to the Organisation on trading activities net of a provision for bad or doubtful debt. They are stated at historical cost.

v. CREDITORS

Creditors are represented by balances owed by the Organisation on trading activities they are stated at historical cost. Creditor amounts due in foreign currencies at the end of the accounting period are re-stated on the prevalent conversion rate as at 31st December.

w. IMPACT OF ACCOUNTING STANDARDS ADOPTED SINCE THE LAST ACCOUNTING PERIOD

The Organisation has not been impacted through any accounting standards adopted since the last accounting period.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code of Practice on Local Authority Accounting 2017/18 requires the Organisation to disclose information relating to the impact on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Organisation. There are no new accounting standards due to come into force in the next year.

The Organisation does not expect any significant changes however all the standards will be fully assessed and adopted where necessary in the 2019 Statement of Accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying these accounting policies the Organisation has made certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are :

Leasing

The Organisation has reviewed all classes of leases held by the Organisation and concluded that all existing leases to the 31st December 2017 constitute operating leases and therefore have no impact on the re-statement to and IFRS basis of accounting. In 2018 a lease agreement for the supply of IT equipment has been classified as a Finance lease due to all the risks and rewards relating to the leased equipped transferring to YPO, details of this lease are included within note 15 of this statement.

Related Party Transactions

The Organisation trades extensively with its owning authorities however, as no one particular authority can exert any controlling influence over the Organisation and all transactions are on an arms length basis they are not classified as related parties in this statement of accounts. For clarity trading with member authorities is included under note 17 of this statement.

Asset ownership

Under s102 of the Local Government Act 1972, a Joint Committee does not have the corporate status to acquire assets. However, given that YPO both enjoys the economic benefits from and assumes liabilities for its land and building assets, the "substance over form" policy justifies the inclusion of the assets in the Organisation's accounts.

Invoicing of direct supply goods

The Organisation recognises that due to the method employed to charge customers for direct supply deliveries, that goods delivered and in transit which have been invoiced by the supplier but not yet processed by the Organisation, are accounted for in the period in which the transaction is processed rather than delivered. This figure is not material for this statement of accounts and is reviewed annually.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on either assumptions made by the Organisation 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.

Items included in this Statement of Accounts for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension assets and the discount rates used bring future assumptions to present values. A firm of consulting actuaries is engaged to provide the Organisation with expert advice about the assumptions to be applied.

Notes to the Core Financial Statements

These assumptions interact in complex ways and could produce a range of different results depending on the mix of changes in assumptions. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of around £2.158m.

Framework Contract Income

This statement of accounts includes an estimate of income due to the Organisation from suppliers operating on the Organisation's framework contracts as at 31st December. This estimate is on the basis described in note 1 (point r).

Whilst every effort is made by the Organisation to accurately forecast balances due to the Organisation as at the year end, there is a risk that returns on these contracts may either exceed or be less than the estimate made at the date of the closure of the accounts. The impact on the statements in the following year will be dependent on the mix of positive and negative variances against estimates. If the estimate of income due was to be different by 10% this would represent a movement of around £171K.

Property, Plant & Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.

The Organisation takes independent advice on the valuation of buildings and believes the depreciation policies adopted accurately reflect the current market value of assets held, however there is a risk that any sale value will be very much dependent on the economic climate at the point of sale. At the year end the Organisation was not intending disposing of any major assets.

Foreign currency transactions

Transactions in foreign currencies are recorded in the statement of accounts in sterling using the spot exchange rate on recognition of the liability.

Goods in transit from an overseas source are included in this statement of accounts valued at the spot rate as at the 31st December and any exchange rate difference arising on the actual payment will be accounted for in the income and expenditure account. The difference relates to the movement in spot rates between the two events.

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

During 2019 there have been several items of material income and expenditure that have been reflected in this statement of accounts. The main ones are;

Invoiced turnover in 2018 was £112.9m, £0.9m above the budget for the year and up on last year by £2m.

There has been an adverse impact on rebate income in the year of £0.513m due to an over accrual of expected income in the 2017 year end accounts.

Third party carrier costs were £0.374m over budget due to a combination of Driver's sickness and higher stock sales. Both of which resulted in a greater number of consignments being fulfilled by external parties.

Stock take adjustments were over budget by £0.518m due to the introduction of our Perpetual Inventory team and an increased number of stock counts in the year. This overspend was offset by a general contingency within the budget, this contingency was included to ease the pressures of our future proofing programme which had initially removed £2m from our overheads budget.

An agreed dividend distribution of £7.492m for the trading year 2017 was distributed in September 2018. This distribution included all customers. As at the 31st December 2018 there was a balance of £373K of loyalty vouchers unredeemed.

6. TURNOVER

Turnover is the VAT exclusive value of invoiced sales for goods supplied from stock and by 'direct supply' arrangements. See also Statement of Accounting Policies note 1(b). Commission income from framework contracts arranged by the Organisation for customers is shown as Rebates. Supplier contributions for marketing support, canteen sales and other non-trading income are shown in Other Income.

Notes to the Core Financial Statements

7. RETIREMENT BENEFITS

Participation in pension schemes

As part of the terms and conditions of employment of its officers and other employees, YPO offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Organisation has a commitment to disclose the payments as at the time that officers and employees earn their future entitlement.

The organisation participates in the Local Government Pension Scheme (LGPS), administered by the West Yorkshire Pension Fund (WYPF). This is a funded defined benefit final salary scheme, meaning that the organisation pays contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The employers' rate of contribution for January to December 2018 was 14.4%. Employees contributions in 2018 were between 5.5% and 12.5% depending on salary.

In addition the Organisation has awarded discretionary post-retirement benefits upon early retirement - this is an unfunded element of the defined benefit final salary scheme, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Transactions relating to post - employment benefits

The Organisation is required to recognise the cost of retirement benefits when employees earn them, rather than when they are actually paid to pensioners. However the charge made against the general fund balance is limited to the employer's contributions payable to the Pensions Fund in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Statement of Movement in Reserves Statement during the year.

| | Funded | Unfunded | Total | Funded | Unfunded | Total |
|---|----------------|-----------|----------------|----------------|-----------|----------------|
| | 2017 | 2017 | 2017 | 2018 | 2018 | 2018 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Comprehensive Income and Expenditure Account | | | | | | |
| Cost of Service | | | | | | |
| Current Service Cost | 3,662 | 0 | 3,662 | 4,012 | 0 | 4,012 |
| Past Service (Gain)/Cost | 20 | 0 | 20 | 155 | 0 | 155 |
| Curtailment (Gain)/Loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing and investment income and Expenditure | | | | | | |
| Net interest Expense | 758 | 25 | 783 | 591 | 22 | 613 |
| Total Post Employment Benefit Charged to the surplus or Deficit on the Provision of Services | 4,440 | 25 | 4,465 | 4,758 | 22 | 4,780 |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | | | | | | |
| Remeasurement of the net defined benefit liability | | | | | | |
| Return on plan assets (gains)/losses | (7,387) | 0 | (7,387) | 6,731 | 0 | 6,731 |
| Actuarial (Gains) and losses-demographic assumptions | (3,311) | (22) | (3,333) | 0 | 0 | 0 |
| Actuarial (Gains) and losses-experience | (2,131) | (7) | (2,138) | 415 | 7 | 422 |
| Actuarial (Gains) and losses-financial assumptions | 5,827 | 15 | 5,842 | (8,953) | (29) | (8,982) |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | (2,562) | 11 | (2,551) | 2,951 | 0 | 2,951 |
| Movement in Reserves Statement | | | | | | |
| Reversal of net charges made to the comprehensive Income and Expenditure account for post employment benefits in accordance with the Code | (4,440) | (25) | (4,465) | (4,758) | (22) | (4,780) |
| Actual amount charged against the General Fund balance for pensions in the year: | | | | | | |
| - employer's contributions to the pension scheme | 1,710 | | 1,710 | 1,967 | | 1,967 |
| -retirement benefits payable to pensioners | | 63 | 63 | | 62 | 62 |
| Total Charge against the General fund | (2,730) | 38 | (2,692) | (2,791) | 40 | (2,751) |

Post retirement mortality assumptions as at 31st December applicable to funded and unfunded pensions

| | Males | | Females | |
|---|---------|---------|---------|---------|
| | 2017 | 2018 | 2017 | 2018 |
| Rating to base table | 0 | 0 | 0 | 0 |
| Scaling to base table rates (Current) | 100% | 105% | 90% | 90% |
| Scaling to base table rates (Future) | 115% | 115% | 90% | 90% |
| Cohort improvement factors | CMI2012 | CMI2012 | CMI2012 | CMI2012 |
| Minimum underpin to improvement factors | 1.50% | 1.50% | 1.50% | 1.50% |
| Future lifetime from age 65 (currently aged 65) | 22.1 | 22.1 | 25.2 | 25.3 |
| Future lifetime from age 65 (currently aged 45) | 23 | 23.1 | 27 | 27.1 |

Notes to the Core Financial Statements

Pension assets and liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the organisations obligation in respect of its defined benefit schemes is as follows:

| | Funded | | Unfunded | |
|--|-----------------|-----------------|--------------|--------------|
| | 2017 | 2018 | 2017 | 2018 |
| | £000s | £000s | £000s | £000s |
| Recognised in the Balance Sheet | | | | |
| Fair value of assets | 94,471 | 89,062 | 0 | 0 |
| Present value of the defined benefit obligation | (119,120) | (114,695) | (922) | (860) |
| Net liability arising from defined benefit obligation | (24,649) | (25,633) | (922) | (860) |

Reconciliation of Fair Value of the Scheme Assets

The unfunded liabilities do not have assets in the scheme to support them. Below is a breakdown of scheme assets in relation to the funded liabilities.

| | 2017 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Balance at 1st January | 85,381 | 94,471 |
| Interest income | 2,298 | 2,350 |
| Remeasurement gains/ (losses) on assets | 7,387 | (6,731) |
| Employer contributions | 1,710 | 1,967 |
| Contributions by scheme participants | 834 | 810 |
| Benefits paid | (3,139) | (3,805) |
| Balance at 31st December | 94,471 | 89,062 |

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

| | Funded Liabilities | | Unfunded Liabilities | |
|---|--------------------|------------------|----------------------|--------------|
| | 2017 | 2018 | 2017 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1st January | (114,302) | (119,120) | (974) | (922) |
| Current Service Cost | (3,662) | (4,012) | | |
| Interest Cost | (3,056) | (2,941) | (25) | (22) |
| Contributions by scheme participants | (834) | (810) | | |
| Remeasurement gains and (losses) | | | | |
| <i>Actuarial gains and (losses) - demographic assumptions</i> | 3,311 | 0 | 22 | 0 |
| <i>Actuarial gains and (losses) - financial assumptions</i> | (5,827) | 8,953 | (15) | 29 |
| <i>Actuarial gains and (losses) - experience</i> | 2,131 | (415) | 7 | (7) |
| Benefits paid | 3,139 | 3,805 | 63 | 62 |
| Past service costs and curtailments | (20) | (155) | | |
| Balance at 31st December | (119,120) | (114,695) | (922) | (860) |

Local Government Pension Scheme Assets

The discretionary benefits arrangements have no assets to cover liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| | Assets held | |
|--------------------|---------------|---------------|
| | 2017 | 2018 |
| Equity investments | 77.30% | 74.60% |
| Property | 4.50% | 4.20% |
| Bonds | 13.10% | 14.30% |
| Other assets * | 5.10% | 6.90% |
| TOTAL | 100.0% | 100.0% |

* Other holdings may include hedge funds, currency, asset allocation futures and other financial instruments. It is assumed that these will get a return in line with equities.

Notes to the Core Financial Statements

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels. The scheme has been assessed by Hewitt Associates Limited, an independent firm of actuaries. Estimates for the fund have been based on the latest full valuation of the funded scheme as at the 31st March 2016 and the unfunded scheme as at 31st December 2017.

| | Funded element | | Unfunded element | |
|--|----------------|-------------|------------------|-------------|
| | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> |
| Mortality assumptions | | | | |
| Longevity at 65 for future pensioners | | | | |
| Men | 23.0 years | 23.1 years | | |
| Women | 27.0 years | 27.1 years | | |
| Longevity at 65 for current pensioners | | | | |
| Men | 22.1 years | 22.1 years | 22.1 years | 22.1 years |
| Women | 25.2 years | 25.3 years | 25.2 years | 25.3 years |
| Rate of Inflation (RPI) | 3.30% | 3.30% | 3.30% | 3.30% |
| Rate of Inflation (CPI) | 2.20% | 2.20% | 2.20% | 2.20% |
| Rate of Increase in Salaries | 3.45% | 3.45% | - | - |
| Rate of Increase in Deferred Pensions | 2.20% | 2.20% | - | - |
| Rate of Increase in Pensions | 2.20% | 2.20% | 2.20% | 2.20% |
| Rate for discounting scheme liabilities | 2.50% | 2.90% | 2.50% | 2.90% |
| Take-up of option to convert annual pension into retirement lump sum | 75.00% | 75.00% | | |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method.

Impact on the Defined benefit Obligation in the Scheme

| | Increase in Assumption £000 | Decrease in Assumption £000 |
|---|--------------------------------|--------------------------------|
| Member Life expectancy (+ or - 1 year) | 3,365 | (3,380) |
| Rate of increase in salaries (+ or - 0.1%) | 549 | (543) |
| Rate of increase in pensions (+ or - 0.1%) | 1,645 | (1,620) |
| Rate for discounting scheme liabilities (+ or - 0.1%) | (2,158) | 2,199 |

Impact on the Organisation's Cash Flows

The liabilities show the underlying commitment that the Organisation has in the long run to pay post employment / retirement benefits. The total liability of £26,493k has a substantial impact on the net worth of the organisation as recorded in the balance sheet. Arrangements for funding the deficit mean that the financial position of the organisation remains healthy.

- The deficit on the scheme will be made good by contributions over the remaining working life of employees(i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The contributions expected to be made by the Organisation to the Local Government Pension Scheme in the year to 31st December 2019 are £1.877m. In addition, contributions towards the unfunded obligations will be required. Expected contributions for the discretionary benefits in the year to 31st December 2019 are £0.064m.

The weighted average duration of the defined benefit obligation for scheme members is 19.0 years.

The scheme will need to take account of the national charges to the scheme under the Public Pensions Services act 2013 Under the act, the Local Government pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

Notes to the Core Financial Statements

8. Property Plant and Equipment

As at 31 December 2018, the Organisation held the following assets

Property plant and equipment were predominantly represented by 43 Delivery vehicles (2017 = 43), 67 Container units (2017 = 93) and Land and Buildings comprising of one general supplies warehouse and office complex located at 41 Industrial Park, Wakefield and one located at Flanshaw Way, Wakefield (no change from 2017).

**2017 has been re-stated to increase Capital Expenditure in the year by £41K, the costs had been expensed against the Profit and Loss Account. The re-statement has added £41K to the additions of Furniture & Equipment in 2017 and as a result increased the closing cost and net book value balances for Furniture & Equipment and Total Fixed Assets as at the 31st December 2018 by £41K.*

Property Plant and Equipment

Cost or valuation

Opening balance 1 January 2018 Re-stated
 Acc depreciation write out to gross carrying amount
 Revaluation increase / (decrease) recognised in the Revaluation Reserve
 Revaluation increase / (decrease) recognised in the I&E
 Additions
 Impairment
 Disposals

At 31 December 2018

Depreciation and impairments

Opening balance 1 January 2018
 Charge for depreciation 2018
 Disposals
 Impairment
 Acc depreciation write out to gross carrying amount
 Depreciation written out to I&E

At 31 December 2018

Net Book Value at 31 December 2018

Net Book Value at 1 January 2018 Re-stated

2017 Comparative Re-stated

Property Plant and Equipment

Cost or valuation

Opening balance 1 January 2017
 Acc depreciation write out to gross carrying amount
 Revaluation increase / (decrease) recognised in the Revaluation Reserve
 Revaluation increase / (decrease) recognised in the I&E
 Additions - Re-stated
 Impairment
 Disposals

At 31 December 2017 Re-stated

Depreciation and impairments

Opening balance 1 January 2017
 Charge for depreciation 2017
 Disposals
 Impairment
 Acc depreciation write out to gross carrying amount
 Revaluation

At 31 December 2017

Net Book Value at 31 December 2017 Re-stated

Net Book Value at 1 January 2017

| | Land & Buildings £'000 | Furniture & Equipment £'000 | Computers £'000 | Vehicles £'000 | TOTAL £'000 |
|---|---------------------------|--------------------------------|--------------------|-------------------|----------------|
| Opening balance 1 January 2018 Re-stated | 9,000 | 780 | 925 | 3,336 | 14,040 |
| Acc depreciation write out to gross carrying amount | | | | 0 | 0 |
| Revaluation increase / (decrease) recognised in the Revaluation Reserve | 156 | 0 | 0 | 0 | 156 |
| Revaluation increase / (decrease) recognised in the I&E | 72 | 0 | 0 | 0 | 72 |
| Additions | 0 | 72 | 220 | 343 | 635 |
| Impairment | | | | | |
| Disposals | | | | | |
| At 31 December 2018 | 9,228 | 851 | 1,145 | 3,679 | 14,903 |
| Opening balance 1 January 2018 | 0 | 478 | 881 | 3,028 | 4,387 |
| Charge for depreciation 2018 | 162 | 47 | 31 | 181 | 420 |
| Disposals | | 0 | 0 | 0 | 0 |
| Impairment | | 0 | 0 | 0 | 0 |
| Acc depreciation write out to gross carrying amount | (162) | | | 0 | (162) |
| Depreciation written out to I&E | | 0 | 0 | 0 | 0 |
| At 31 December 2018 | 0 | 525 | 912 | 3,209 | 4,646 |
| Net Book Value at 31 December 2018 | 9,228 | 326 | 233 | 470 | 10,257 |
| Net Book Value at 1 January 2018 Re-stated | 9,000 | 301 | 44 | 308 | 9,653 |

| | Land & Buildings £'000 | Furniture & Equipment £'000 | Computers £'000 | Vehicles £'000 | TOTAL £'000 |
|---|---------------------------|--------------------------------|--------------------|-------------------|----------------|
| Opening balance 1 January 2017 | 9,058 | 738 | 925 | 3,336 | 14,057 |
| Acc depreciation write out to gross carrying amount | | | | 0 | 0 |
| Revaluation increase / (decrease) recognised in the Revaluation Reserve | | 0 | 0 | 0 | 0 |
| Revaluation increase / (decrease) recognised in the I&E | -58 | 0 | 0 | 0 | (58) |
| Additions - Re-stated | 0 | 41 | 0 | 0 | 41 |
| Impairment | | | | | |
| Disposals | | | | | |
| At 31 December 2017 Re-stated | 9,000 | 780 | 925 | 3,336 | 14,040 |
| Opening balance 1 January 2017 | 0 | 436 | 864 | 2,915 | 4,215 |
| Charge for depreciation 2017 | 157 | 42 | 17 | 112 | 329 |
| Disposals | | 0 | 0 | 0 | 0 |
| Impairment | | 0 | 0 | 0 | 0 |
| Acc depreciation write out to gross carrying amount | | | | 0 | 0 |
| Revaluation | -157 | 0 | 0 | 0 | (157) |
| At 31 December 2017 | 0 | 478 | 881 | 3,028 | 4,387 |
| Net Book Value at 31 December 2017 Re-stated | 9,000 | 301 | 44 | 308 | 9,653 |
| Net Book Value at 1 January 2017 | 9,058 | 302 | 61 | 421 | 9,842 |

Notes to the Core Financial Statements

8a. Intangible Assets

During 2014 the Organisation spent £118K on developing the company's website, on which customers can place orders and make payments. The costs incurred included IT Development and testing time. All costs have been capitalised as Intangible Assets and amortised over 3 years from the time the assets became operational.

During 2018 the company invested in the development of an Apprenticeship Levy framework portal which would allow our customers to sign up to a range of apprenticeship courses available through the levy scheme. All spend through the portal would generate a rebate income to YPO. All fees paid to external developers have been capitalised as Intangible Assets and amortised over 3 years from the time the portal became operational.

| | 2017 | 2018 |
|--------------------------------------|------------------------------------|------------------------------------|
| | Intangible Assets £'000 | Intangible Assets £'000 |
| Cost or valuation | | |
| Opening balance 1 January | 118 | 118 |
| Additions | | 75 |
| Impairment | | |
| Disposals | | |
| At 31 December | 118 | 192 |
| Amortisation and impairments | | |
| Opening balance 1 January | 88 | 118 |
| Amortisation charge for the year | 30 | 4 |
| Impairment | | |
| Disposals | | |
| At 31 December | 118 | 122 |
| Net Book Value at 31 December | 0 | 70 |
| Net Book Value at 1 January | 30 | 0 |

9. Inventories

| 31st Dec 2018 | Warehouse Stock £000's | Packing and Materials £000's | Total £000's |
|---|------------------------------|------------------------------------|-----------------|
| Opening inventory balance | 12,813 | 36 | 12,849 |
| Purchases | 62,580 | 412 | 62,992 |
| Recognised as an expense in year | (60,683) | (274) | (60,957) |
| Increase / (Decrease) in Stock in Transit accrual | (181) | - | (181) |
| Reversals of write offs in previous years | 0 | - | 0 |
| Closing Inventory balance | 14,529 | 174 | 14,703 |
| Provision for stock write off | (247) | 0 | (247) |
| Closing Inventory balance net of provisions made | 14,282 | 174 | 14,456 |

| 31st Dec 2017 | Warehouse Stock £000's | Packing and Materials £000's | Total £000's |
|---|------------------------------|------------------------------------|-----------------|
| Opening inventory balance | 12,373 | 63 | 12,436 |
| Purchases | 60,129 | 276 | 60,405 |
| Recognised as an expense in year | (59,853) | (303) | (60,156) |
| Increase / (Decrease) in Stock in Transit accrual | 164 | - | 164 |
| Reversals of write offs in previous years | 0 | - | 0 |
| Closing Inventory balance | 12,813 | 36 | 12,849 |
| Provision for stock write off | (100) | 0 | (100) |
| Closing Inventory balance net of provisions made | 12,713 | 36 | 12,749 |

Notes to the Core Financial Statements

10. DEBTORS AND PAYMENTS IN ADVANCE

Debtors represent monies owed to the Organisation at the Balance Sheet date, which are yet to be received as cash. The Organisation also makes provision for outstanding monies that it is anticipated will not be recovered.

Debtors: Amounts due within one year

| | |
|--|--|
| Trade Debtors | |
| Accumulated Absences | |
| Less - Provision for Bad Debts | |
| Payments in Advance and accrued income | |
| Total | |

| 31st Dec 2017 | 31st Dec 2018 |
|---------------|---------------|
| £'000 | £'000 |
| 9,681 | 8,842 |
| 7 | 4 |
| (112) | (128) |
| 9,576 | 8,718 |
| 5,078 | 4,419 |
| 14,654 | 13,137 |

Debtors are analysed by the following categories

Trade debtors

| | |
|--|--|
| central government bodies | |
| other local authorities | |
| NHS bodies | |
| public corporations and trading funds | |
| bodies external to general government (i.e. all other bodies). | |

| 31st Dec 2017 | 31st Dec 2018 |
|---------------|---------------|
| £'000 | £'000 |
| 0 | 0 |
| 5,931 | 5,491 |
| 19 | 11 |
| 0 | 0 |
| 3,730 | 3,340 |
| 9,681 | 8,842 |

Payments in advance and accrued income

| | |
|--|--|
| central government bodies | |
| other local authorities | |
| NHS bodies | |
| public corporations and trading funds | |
| bodies external to general government (i.e. all other bodies). | |

| | |
|-------|-------|
| - | - |
| - | - |
| - | - |
| - | - |
| 5,078 | 4,419 |
| 5,078 | 4,419 |

Debtors: Amounts due after more than one year

| | |
|------------------|--|
| Loans Receivable | |
| Total | |

| 31st Dec 2017 | 31st Dec 2018 |
|---------------|---------------|
| £'000 | £'000 |
| 0 | 500 |
| 0 | 500 |

11. CREDITORS AND RECEIPTS IN ADVANCE

Creditors represent monies owed by the Organisation at the Balance Sheet date, which have not yet been paid.

Creditors and Receipts in Advance

| | |
|----------------------|--|
| Trade Creditors | |
| Accruals | |
| Finance Leases | |
| VAT | |
| Accumulated absences | |
| Total | |

| 31st Dec 2017 | 31st Dec 2018 |
|---------------|---------------|
| £'000 | £'000 |
| 5,212 | 5,162 |
| 2,455 | 1,644 |
| 0 | 55 |
| 197 | 283 |
| 118 | 104 |
| 7,982 | 7,247 |

Creditors are analysed by the following categories

Trade creditors

| | |
|--|--|
| central government bodies | |
| other local authorities | |
| NHS bodies | |
| public corporations and trading funds | |
| bodies external to general government (i.e. all other bodies). | |

| 31st Dec 2017 | 31st Dec 2018 |
|---------------|---------------|
| £'000 | £'000 |
| - | - |
| 38 | 83 |
| 5,174 | 5,079 |
| 5,212 | 5,162 |

Accruals / Leases / VAT

| | |
|--|--|
| central government bodies | |
| other local authorities | |
| NHS bodies | |
| NHS bodies | |
| public corporations and trading funds | |
| bodies external to general government (i.e. all other bodies). | |

| | |
|-------|-------|
| 197 | 283 |
| 642 | 632 |
| - | - |
| - | - |
| 1,931 | 1,171 |
| 2,770 | 2,085 |

Notes to the Core Financial Statements

Long Term Liabilities

| |
|--|
| Finance Leases |
| Liability relating to Defined Benefit Pension Scheme |
| Total |

| 31st Dec 2017 | 31st Dec 2018 |
|---------------|---------------|
| £'000 | £'000 |
| 0 | 151 |
| 25,571 | 26,493 |
| 25,571 | 26,644 |

12. RISK TO FINANCIAL INSTRUMENTS

The organisation's financial instruments are represented by bank balances, investments made in line with the Organisations Treasury Management Policy, trade creditors, trade debtors and loans receivable. Certain risks are associated with these classes of cash and cash equivalents as follows.

Bank balances are held in UK bank accounts and earn interest based on aggregated overnight investments rates determined by our banking providers. Risks to cash arise in the form of banking failures within the UK.

Investments represent cash deposits made with other local authorities which earn a fixed interest rate agreed at the time of investment and are for a fixed term. Risks arise in the form of banking failures within the UK. As at the 31st December the sum of £5m was invested with various local authorities. All investments are repayable in 2019.

The risks associated with Investments are managed through the adoption of a Treasury Management Policy. YPO adopts the key recommendations of CIPFA's Code of Practice entitled "Treasury Management in the Public Services" within its policy statement. The Organisation's high level policy for investments is to invest its monies prudently, considering security first, liquidity second and yield last, carefully considering its investment counterparties.

Creditors are suppliers of goods and services to the organisation. Risk is minimised from a robust set of procedures to ensure that all goods and services supplied to the organisation are properly ordered and received prior to the payment of any sums due.

Debtors are comprised of customers and some trade suppliers owing funds to the organisation. The inherent risk is one of failure to settle outstanding debts due to bankruptcy or other financial problems. Most customers are within the public sector which mitigates this risk to a large extent.

At the end of the financial year the Organisation was at increased risk over debtors due to changes in the economic climate chiefly brought about by the impact of the Government's comprehensive spending review on the organisation's customer base and the change in education from state to academy status schools. Debtors past due are as follows :-

| | 2017 | 2018 |
|------------------------|--------------|--------------|
| | £'000 | £'000 |
| Two to six months | 2,843 | 2,458 |
| Six months to one year | 216 | 456 |
| More than one year | 111 | 239 |
| Total | 3,170 | 3,153 |

A general provision of £128k (2017 £112k) has been included against all debtors. Bad debt calculations are based on the debtor type and agreed upon with the Sales Ledger Manager.

Loans receivable constitute a loan issued in July 2018 to one of our related parties, YPO Procurement Holdings Ltd, for £500K. The purpose of the loan was to allow YPO Procurement Holdings to invest in EdTech Impact Limited for 30% of their Ordinary shares. The risk is that the related party, or the new associate, becomes insolvent and therefore repayment of the loan is unlikely. As at the 31st December 2018 the full capital amount, plus the accrued daily interest of 3% above the Bank of England base rate, is still outstanding.

The risks associated with our loans receivable are managed by the close monitoring of the borrower's financial performance and balance sheet position on a monthly basis. This allows for any potential credit risks to be identified as soon as possible and actions put in place to prevent the risks from materialising.

Notes to the Core Financial Statements

13. MOVEMENTS IN RESERVES

The General Fund Reserve represents the cumulative retained surplus built up over the life of the business. The General Fund Reserve is used to finance growth in working capital and supports the medium term plans of the business.

The table below shows the balances held in other reserves at the start and end of the year and the net movement in the year. The balances represent undistributed reserves payable to the member authorities.

| Reserve | Re-stated 31st Dec 2017 £'000 | 31st Dec 2018 £'000 | Net Movement in the Year £'000 | Note |
|--|--|---------------------------|---|------|
| <u>Usable reserves</u> | | | | |
| General Fund Balance | 28,261 | 29,600 | 1,339 | i |
| Capital Receipts Reserve | 85 | 85 | 0 | ii |
| Internal Investment Reserve | 1,696 | 610 | (1,086) | iii |
| <u>Unusable reserves</u> | | | | |
| Joint Committee Capital Adjustment Account | 10,327 | 10,625 | 298 | iv |
| Earmarked Pension reserve | (25,571) | (26,493) | (922) | v |
| Earmarked Accumulated Absences Account | (111) | (100) | 11 | vi |
| Revaluation reserve | 0 | 156 | 156 | vii |
| Total reserves | 14,687 | 14,483 | (204) | |

*2017 has been re-stated to increase Capital Expenditure in the year by £41K, the costs had been expensed against the Profit and Loss Account. The re-statement has reduced the deficit on Operations within the General fund by £41K and also reduced the transfer between the General fund and CAA by £41K. The net result is an increase in the closing balances of the CAA and Total Reserves by £41K as the 31st December 2017.

(i) To protect the Organisation against unforeseen events and the realisation of contingent liabilities. Included within the overall General Fund balance is the Financial Stability Fund which as at 31st December 2018 had a balance of £1m.

| | Re-stated 2017 £'000 | 2018 £'000 |
|---|----------------------------|----------------|
| General fund balance | | |
| Balance brought Forward 1st of January | 28,818 | 28,261 |
| Surplus or deficit on operations | (3,552) | (2,189) |
| Total comprehensive income and expenditure | (3,552) | (2,189) |
| Depreciation and impairment | 270 | 191 |
| Revaluation losses (gains) | | |
| Capital expenditure charged to the GF | (41) | (489) |
| Transfer of cash sale proceeds | | |
| Use of UCRR to fund capital expenditure | | |
| Reversal of IAS 19 charges to I&E | 4,465 | 4,780 |
| Employer's pension contributions | (1,773) | (2,029) |
| Movement in employee absence accrual | 0 | (11) |
| Total voluntary adjustments | 2,920 | 2,442 |
| Pension Contribution Reserve | - | - |
| Internal Investment Reserve | 74 | 1,086 |
| Total transfers to/from cash reserves | 74 | 1,086 |
| Total transfers to/from earmarked reserves | 2,995 | 3,528 |
| Balance Carried Forward 31st December | 28,261 | 29,600 |
| Movement in year represented in the Movement in Reserves Statement | (557) | 1,339 |

Notes to the Core Financial Statements

(ii) The Usable Capital Receipts reserve records the receipts from sales of fixed assets less amounts used to finance capital expenditure.

| | 2017 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Usable Capital Receipts Reserve | | |
| Balance brought Forward 1st of January | 85 | 85 |
| Amounts Received | | |
| General receipts | - | - |
| Amounts Applied | | |
| New Capital Investment | - | - |
| Balance Carried Forward 31st December | 85 | 85 |
| Movement in year represented in the Movement in Reserves Statement | - | - |

(iii) The Internal Investment Reserve holds funds earmarked to support specific initiatives or activities.

| | 2017 £'000 | 2018 £'000 |
|---|---------------|----------------|
| Internal Investment Reserve | | |
| Balance brought Forward 1st of January | 1,770 | 1,696 |
| Transferred to Reserves | | |
| Reserves for specific projects created in year | 455 | 392 |
| Amounts Applied | | |
| Reserve balances utilised in year | (529) | (1,478) |
| Amounts released back to the General Fund | | |
| Reserve balances no longer required and released back to the General Fund | | |
| Balance Carried Forward 31st December | 1,696 | 610 |
| Movement in year represented in the Movement in Reserves Statement | (74) | (1,086) |

(iv) The Joint Committee Capital Adjustment Account is an earmarked reserve representing the accumulation of the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal, offset by the resources that have been set aside to finance capital expenditure.

The Joint Committee Capital Adjustment Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure and to repay debt.

| | Re-stated 2017 £000 | 2018 £000 |
|---|---------------------------|---------------|
| Joint Committee Capital Adjustment Account | | |
| Balance brought Forward 1st of January | 10,545 | 10,327 |
| Brought Forward adjustment | | |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| Charges for depreciation and impairment of non-current assets | (270) | (191) |
| Revaluation (losses) gains on property plant and equipment | 10 | 0 |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | - | - |
| Adjusting amounts written out of Revaluation Reserve | 0 | 0 |
| | 10,285 | 10,136 |
| Net Written out amount of the cost of non-current assets consumed in the year | | |
| Capital financing applied in the year | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - |
| Capital expenditure charged against the General Fund | 41 | 489 |
| | 10,327 | 10,625 |
| Balance Carried Forward 31st December | 10,327 | 10,625 |
| Movement in year represented in the Movement in Reserves Statement | (218) | 298 |

Notes to the Core Financial Statements

(v) The Earmarked Pension Reserve is an earmarked reserve representing the difference between the actuarially calculated value of the pension fund assets and the present value of scheme liabilities.

| | 2017 £000 | 2018 £000 |
|---|-----------------|-----------------|
| Earmarked Pension Reserve | | |
| Balance bought forward 1st January | (29,895) | (25,571) |
| Actuarial Gains or (losses) on pension assets and Liabilities | 7,016 | 1,829 |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (4,465) | (4,780) |
| Employers pensions contributions and direct payments to pensioners payable in year | 1,773 | 2,029 |
| Balance Carried Forward 31st December | (25,571) | (26,493) |
| Movement in year represented in the Movement in Reserves Statement | 4,324 | (922) |

(vi) The Earmarked 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. Proper accounting arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| | 2017 £000 | 2018 £000 |
|--|--------------|--------------|
| Earmarked Accumulated Absences Account | | |
| Balance bought forward 1st January | (111) | (111) |
| Settlement or cancellation of accrual made in preceding year | 111 | 111 |
| Amount to be accrued for current year | (111) | (100) |
| Amount to be charged to the Comprehensive Income and Expenditure Statement | 0 | 11 |
| Balance as at 31st December | (111) | (100) |
| Movement in year represented in the Movement in Reserves Statement | 0 | 11 |

(vii) The Revaluation reserve represents unrealised gains on the revaluation of property plant and equipment. The balance is reduced when assets with accumulated gains are:

- a) revalued downwards or impaired and the gains are removed
- b) used in provision of services and the gains are consumed through depreciation, or
- c) disposed of and the gains realised

| | 2017 £000 | 2018 £000 |
|---|--------------|--------------|
| Revaluation Reserve | | |
| Balance bought Forward 1st of January | 0 | 0 |
| Upward revaluation of assets | - | 0 |
| Difference between fair value depreciation and historical cost depreciation | 0 | 0 |
| Revaluation written out to the General Fund | 0 | 156 |
| Adjusting amounts written out of the Joint Committee Capital Adjustment Account | | |
| Balance Carried Forward 31st December | 0 | 156 |
| Movement in year represented in the Movement in Reserves Statement | 0 | 156 |

Notes to the Core Financial Statements

14. EMPLOYEE EMOLUMENTS

The table below indicates the numbers of employees whose remuneration was greater than £50,000. Remuneration is defined as amounts paid to or receivable by an employee, including payments in kind, expenses allowances that would be chargeable to UK Income Tax. Termination payments are also included, which can lead to year on year comparisons being distorted.

| REMUNERATION BAND £ | No of Employees | |
|------------------------|-----------------|-----------|
| | 2017 | 2018 |
| 50,000 - 54,999 | 8 | 6 |
| 55,000 - 59,999 | 4 | 3 |
| 60,000 - 64,999 | 3 | 3 |
| 65,000 - 69,999 | - | 2 |
| 70,000 - 74,999 | 1 | 1 |
| 75,000 - 79,999 | 1 | - |
| TOTAL | 17 | 15 |

The table below sets out the remuneration disclosure (Board of Directors) whose salary is £50,000 per year or more by job title. Comparative figures for 2017 are also shown and these officers are excluded from the above table.

| 2018 | | | | | | |
|--------------------------|------------------|----------|-----------------------|----------------|-----------------------|--------------------|
| Post | Salary incl. BiK | Expenses | Pay in Lieu of Notice | Redundancy Pay | Pension Contributions | Total Remuneration |
| Managing Director | 129,790 | - | - | - | 18,071 | 147,861 |
| Deputy Managing Director | 100,186 | - | - | - | 13,776 | 113,962 |
| Executive Director | 96,059 | - | - | - | 13,056 | 109,115 |
| Executive Director | 91,879 | - | - | - | 13,056 | 104,935 |
| | 417,914 | - | - | - | 57,959 | 475,873 |

| 2017 | | | | | | |
|--------------------|------------------|----------|-----------------------|----------------|-----------------------|--------------------|
| Post | Salary incl. BiK | Expenses | Pay in Lieu of Notice | Redundancy Pay | Pension Contributions | Total Remuneration |
| Managing Director | 128,733 | - | - | - | 16,994 | 145,727 |
| Executive Director | 95,203 | - | - | - | 12,278 | 107,481 |
| Executive Director | 94,047 | - | - | - | 12,278 | 106,325 |
| Executive Director | 90,613 | - | - | - | 11,875 | 102,488 |
| | 408,595 | - | - | - | 53,426 | 462,021 |

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

| EXIT PACKAGE £ | No. of compulsory Redundancies | | No. of other Redundancies | | Total no. of Exit Packages | | Total cost of Exit Packages | |
|-------------------|--------------------------------|-------------|---------------------------|-------------|----------------------------|-------------|-----------------------------|-----------------|
| | 2017 No. | 2018 No. | 2017 No. | 2018 No. | 2017 No. | 2018 No. | 2017 £,000's | 2018 £,000's |
| 0 - 20,000 | - | - | 8 | 3 | 8 | 3 | 55 | 15 |
| 20,001 - 40,000 | - | - | 3 | - | 3 | - | 90 | - |
| 40,001 - 60,000 | - | - | - | 1 | - | 1 | - | 41 |
| 60,001 - 80,000 | - | - | - | - | - | - | - | - |
| 80,000 and over | - | - | 1 | 1 | 1 | 1 | 139 | 111 |
| Total | - | 0 | 12 | 5 | 12 | 5 | 284 | 167 |

Exit packages include redundancy costs, the cost of additional payments to the pension scheme and other departure costs.

Notes to the Core Financial Statements

15. LEASES

Finance Leases

The Organisation has entered into a Finance Lease for the supply of IT server and switches equipment.

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

| | 2017 £000 | 2018 £000 |
|--|--------------|--------------|
| Vehicles, Furniture and Equipment | 0 | 206 |

The Finance lease liabilities are included in the current and long term liabilities in the Balance Sheet at the following amounts

| | 2017 £000 | 2018 £000 |
|--|--------------|--------------|
| Finance Lease Liabilities (net present value of minimum lease payments) | | |
| Due within one year | 0 | 55 |
| Due after one year and not later than five years | 0 | 151 |
| Finance costs payable in future years | 0 | 7 |
| Minimum lease payments | 0 | 213 |

The minimum lease payments will be payable over the following periods

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|------------------------|--------------|---------------------------|--------------|
| | 2017 £000 | 2018 £000 | 2017 £000 | 2018 £000 |
| Not later than one year | 0 | 57 | 0 | 55 |
| Later than one year and not later than five years | 0 | 156 | 0 | 151 |
| Later than five years | 0 | 0 | 0 | 0 |
| | 0 | 213 | 0 | 206 |

Operating Leases

The Organisation has entered into operating leases with various lives. The future minimum lease payments due under non-cancellable leases in future years are:

| | 2017 £000 | 2018 £000 |
|---|--------------|--------------|
| Not later than one year | 293 | 264 |
| Later than one year and not later than five years | 411 | 401 |
| Later than five years | 2,204 | 2,117 |
| | 2,908 | 2,782 |

Amounts charged, in respect of these leases, to the Comprehensive Income and Expenditure Statement during 2018 were £473k (2017 £500k) of which £29K was rent of Flanshaw Way. The later than five years figure is comprised entirely of a long term lease agreement on the land element of a warehouse property held at Flanshaw Way in Wakefield.

16. AMOUNTS REPORTED FOR DECISION MAKING AND PLANNING

The analysis of Income and Expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Code. This is different to the basis on which the Organisation carries out its budgeting decision making and planning process.

The following shows how the Organisations financial reporting output can be reconciled to the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements

| 2017 £'000 | YPO Profit & Loss | 2018 £'000 |
|-----------------|-------------------------------------|-----------------|
| | Trading | |
| 71,111 | Stores | 73,480 |
| 15,171 | Food | 14,211 |
| 24,684 | Directs | 25,190 |
| 110,965 | Total Invoiced Sales | 112,881 |
| (80,316) | Cost of Sales | (81,239) |
| 30,649 | Gross Margin | 31,642 |
| 128 | Discounts | 137 |
| 5,299 | Rebates | 4,773 |
| 2,216 | Other Income | 1,990 |
| 38,292 | Total Income | 38,542 |
| | Operating Costs | |
| (17,976) | Employment costs | (17,590) |
| (1,117) | Premises | (956) |
| (6,453) | Supplies and Services | (6,223) |
| (4,608) | Transport | (4,681) |
| (127) | SLA costs | (127) |
| (267) | Financial & Misc | (16) |
| (270) | Depreciation | (425) |
| (30,817) | Total Operating Costs | (30,018) |
| 17 | Interest (payable)/receivable | 47 |
| - | Profit/(loss) on disposal of assets | - |
| - | Dividend paid | - |
| - | Pension costs | - |
| 7,492 | Surplus or (deficit) | 8,571 |

| 2017 £'000 | Reconciliation of P&L Account to I&E Account | 2018 £'000 |
|-----------------|--|-----------------|
| 7,492 | Net Profit in P&L Account | 8,571 |
| (11,044) | Amounts in the Comprehensive Income and Expenditure Statement not reported to management | (10,760) |
| - | Amounts included in the P&L not included in the Comprehensive Income and Expenditure Statement | - |
| (3,552) | Surplus/(Deficit) on provision of service | (2,189) |

Reconciliation of Profit and Loss Account to Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the profit and loss account relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

| YPO Profit & Loss 2018 | P&L Acct £'000 | Amts not rptd for mgt dec making £'000 | Alloc'n of reporting expenses £'000 | I&E Statement £'000 |
|---|-------------------|---|--|---------------------------|
| Total Invoiced Sales | 112,881 | | - | 112,881 |
| Cost of Sales | (81,239) | | - | (81,239) |
| Gross Margin | | | | |
| Discounts | 137 | | - | 137 |
| Rebates | 4,773 | | - | 4,773 |
| Other Income | 1,990 | | - | 1,990 |
| Total Income | 38,542 | 0 | - | 38,542 |
| Operating Costs | | | | |
| Employment costs | (17,590) | | - | (17,590) |
| Premises | (956) | | - | (956) |
| Supplies and Services | (6,223) | | - | (6,223) |
| Transport | (4,681) | | - | (4,681) |
| SLA costs | (127) | | - | (127) |
| Financial & Misc | (16) | | - | (16) |
| Depreciation | (425) | | - | (425) |
| Total Operating Costs | (30,018) | 0 | - | (30,018) |
| Interest (payable)/receivable | 47 | | - | 47 |
| Profit/(loss) on disposals | | | - | 0 |
| Revaluation gains / (losses) | | 233 | | 233 |
| Dividend paid | | (7,253) | - | (7,253) |
| Earmarked reserves funding | | (989) | - | (989) |
| Pension costs | | (2,751) | - | (2,751) |
| Surplus or (deficit) on provision of service | 8,571 | (10,760) | - | (2,189) |

Notes to the Core Financial Statements

| YPO Profit & Loss 2017 | P&L Acct £'000 | Amts not rptd for mgt dec making £'000 | Alloc'n of reporting expenses £'000 | I&E Statement £'000 |
|---|-------------------|---|--|---------------------------|
| Total Invoiced Sales | 110,965 | | - | 110,965 |
| Cost of Sales | (80,316) | | - | (80,316) |
| Gross Margin | | | | 0 |
| Discounts | 128 | | - | 128 |
| Rebates | 5,299 | | - | 5,299 |
| Other Income | 2,216 | | - | 2,216 |
| Total Income | 38,292 | 0 | - | 38,292 |
| Operating Costs | | | | |
| Employment costs | (17,976) | | - | (17,976) |
| Premises | (1,117) | | - | (1,117) |
| Supplies and Services | (6,453) | | - | (6,453) |
| Transport | (4,608) | | - | (4,608) |
| SLA costs | (127) | | - | (127) |
| Financial & Misc | (267) | | - | (267) |
| Depreciation | (270) | | - | (270) |
| Total Operating Costs | (30,817) | 0 | - | (30,817) |
| Interest (payable)/receivable | 17 | | - | 17 |
| Profit/(loss) on disposals | | | - | 0 |
| Revaluation gains / (losses) | | | - | 0 |
| Dividend paid | | (7,864) | - | (7,864) |
| Earmarked reserves funding | | (488) | - | (488) |
| Pension costs | | (2,692) | - | (2,692) |
| Surplus or (deficit) on provision of service | 7,492 | (11,044) | - | (3,552) |

17. RELATED PARTY TRANSACTIONS

The Organisation 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 the Organisation.

Transactions with Founder Member Authorities are shown here for clarity. Founder member authorities are not classified as related parties under the Code of Practice or for the purpose of group accounting but have joint control over the Organisation's decision making and business planning. In addition to the founder members the Organisation has 65 associate members who have no influence over Organisational decision making.

Business transactions with the 13 founder members accounts for a significant proportion of the Organisation's turnover. Membership entitles these authorities to a share of any annual profits and equal powers over key business decisions.

The value of business transacted with each founder member was:

| | 2017 Re-Stated £'000 | 2018 £'000 |
|--------------------|----------------------------|----------------|
| Barnsley MBC | 16,003 | 15,813 |
| Bolton MBC | 10,633 | 10,637 |
| Bradford MDC | 23,831 | 23,690 |
| City of York | 6,896 | 6,819 |
| Doncaster MBC | 13,541 | 13,502 |
| Kirklees MC | 27,420 | 27,481 |
| Knowsley MBC | 9,238 | 9,259 |
| MB of Calderdale | 10,853 | 10,792 |
| North Yorkshire CC | 19,189 | 18,666 |
| Rotherham MBC | 11,787 | 11,753 |
| St Helens MBC | 10,874 | 10,892 |
| Wakefield MdC | 20,071 | 20,212 |
| Wigan MBC | 13,227 | 13,212 |
| | 193,562 | 192,728 |

2017's related party transactions have been re-stated due to the framework activity spend for each member in 2017 only being confirmed after the final accounts had been prepared. 2018's value of transactions include the final framework spend activity for 2017 as at the time of preparing these accounts the 2018 spend was still being finalised.

The above table includes trade direct with the Organisation which is included in invoiced turnover and business transacted through framework contracts arranged by the Organisation. which are not accounted for as turnover in the comprehensive income and expenditure account.

The YPO Management Committee is made up of elected representatives from each Member Authority. No personal interest in material transactions have been disclosed by any of the elected representatives or senior officers of the Organisation.

Notes to the Core Financial Statements

One of the Member Authorities, City of Wakefield MDC, acts as servicing authority for YPO and as such, WMDC officers are the Organisation's statutory officers. YPO has commercial support agreements with Wakefield MDC covering certain accounting, treasury, human resource, legal services and vehicle maintenance arrangements.

In 2014 YPO Procurement Holdings and its subsidiary YPO Supplies Ltd began trading with YPO Joint Committee. Board members for YPO Procurement Holdings and YPO Supplies are also members of the Joint Committee board and therefore all transactions between the above companies are classed as related party transactions in accordance with the Code of practice for Local Authority Accounting.

The transactions involve a payment from YPO Supplies Ltd to YPO Joint Committee for picking items in the warehouse and the cost of telephone call handing. Those charges are at a standard cost. The cost of goods sold is paid by the Limited Company to the Joint Committee at an agreed transfer price. This includes an element of sales, procurement and marketing costs incurred by the Joint Committee. Other charges include a fee for governance and accounting services. The rationale is to recover the costs of operating on behalf of the new company.

Below is a summary of the amount of transactions that have occurred between the related parties and the amount of Balances outstanding. All transactions are sales from YPO Joint Committee.

| | Transactions Value (Ex VAT) for the year £ | Outstanding Balance as at 31st Dec 2018 £ |
|--------------------------|---|--|
| YPO Procurement Holdings | 0 | 0 |
| YPO Supplies Ltd | 2,191,478 | 439,595 |

In July 2018 YPO issued a loan to YPO Procurement Holdings for the sum of £500K. Interest will accrue on the loan at a daily rate of 3% above the Bank of England Base Rate and all capital and interest amounts are repayable by 2030. As at the 31st December the loan amounts still outstanding are.

| | 2018 £ |
|----------|----------------|
| Capital | 500,000 |
| Interest | 8,096 |
| | 508,096 |

On the 31st December 2018 a review has been carried out on the recoverability of the loan issued. Taking into consideration the financial performance and financial position of YPO Procurement Holdings and its subsidiaries, and the expected growth over the next 5 years, it is expected that the full amount owing will be fully recovered by the end of the loan term.

18. AUDIT COSTS

The following fees were paid to the external auditors for services carried out:

| Audit Costs | 2017 £000 | 2018 £000 |
|--|----------------------|----------------------|
| Fees payable to KPMG with regard to external audit services carried out by the appointed auditor | 23 | 23 |

19. EVENTS AFTER THE BALANCE SHEET DATE

The 22nd March 2019 Management Committee Meeting will approve the pre audit statement of Accounts and agree a profit distribution in respect of the 2018 trading year of £7.85m covering members dividend and the YPO loyalty scheme.

This Statement incorporates changes identified during the course of the audit process and no other events have given rise to changes in this statement between the balance sheet date and the authorisation for issue date of the 24th May 2019 when the accounts were authorised for issue by the Audit and Scrutiny Sub Committee.

Glossary of Terms

This glossary is provided to assist the reader. It gives explanations of common terms used in relation to local authority finance (which are not explained elsewhere in the Statement), many of which are used within this document.

Accounting Period

The period covered by the accounts, normally a period of twelve months commencing on 1 January. The end of the accounting period is the balance sheet date, 31 December.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

Accumulated Absences

Accumulated absences are sums owing to or from employees at the end of the accounting period not yet claimed back or paid over for hours owed to / from under the flexible working scheme and holiday days over or under used at the period end.

Annual Governance Statement

A non-statutory document which provides an overview of the governance arrangements within the Organisation, aids the effective exercise of Organisation functions, and includes arrangements for the management of risk.

Asset

An item having value in monetary terms. Assets are defined as current or long term. A current asset will be consumed or cease to have material value within the next financial year. A long term asset provides benefits to the Organisation and its services for more than one year.

Audit of Accounts

An independent examination conducted on a test basis, of the Organisation's financial statements.

Budget

A statement of spending plans and anticipated income for a financial year.

Cash equivalents

Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalent vouchers

These are vouchers issued to customers as loyalty bonus which are redeemable against future purchases.

Current Assets

Is an amount which will become receivable or could be called in within the next accounting period.

Defined Benefit Plans

Are post employment benefit plans other than a defined contribution plan. Usually the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the plan. The plan may be funded or unfunded.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a long term asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Direct Supply

Direct supply refers to the trading method employed by the Organisation where goods ordered by the customer are delivered direct from the supplier rather than the Organisation.

either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Organisation's financial performance.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a long term asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments including any initial payments amount to substantially all of the fair value of the leased asset.

Financial Instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term "financial instrument" covers both financial assets and financial liabilities and includes trade receivables, trade payables and derivatives.

Financial Procedure Rules

Written rules of the Organisation relating to all matters with financial implications. All Organisation officers must comply with these rules.

Impairment

A reduction in the value of a long term asset below its carrying amount on the balance sheet.

International Accounting Standards (IAS)

Standards developed by the International Accounting Standards Board (IASB) that are required to be followed.

International Financial Reporting Standards (IFRS)

The Standards (including International Accounting Standards (IAS)) developed by the International Accounting Standards Board (IASB) and supported by interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC) on which the accounts of this Organisation are based.

Inventories

Inventories include stocks held for resale and all other assets held for use within the Organisation.

Liability

A liability is where the Organisation owes payment to an individual or organisation. A current liability is an amount which will become payable or could be called in within the next accounting period. A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period.

Net Book Value

The amount at which long term assets are included in the Balance Sheet i.e. their historical value or current value less the cumulative amounts provided for depreciation.

Net Expenditure

Gross expenditure less specific income.

Outturn

Actual income receivable and expenditure due in a financial year.

Payments in Advance

These are payments made in advance of goods or services being provided to the Organisation.

Prior year adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Reserve

A reserve is an amount set aside in one financial year and carried forward to meet liabilities in a subsequent financial year, both general and specific liabilities.

Turnover

Turnover is the value of invoices issued to customers for the supply of goods and services.

Useful life

The period over which the Organisation will derive benefits from the use of a long term asset.

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YPO
MANAGEMENT COMMITTEE
TO BE HELD ON
22ND MARCH 2019

TITLE: ANNUAL INTERNAL AUDIT REPORT JANUARY TO DECEMBER 2018

REPORT OF: SERVICE MANAGER FOR INTERNAL AUDIT & RISK

1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to provide this Committee and senior management with Internal Audit's opinion on the effectiveness and efficiency of risk management, governance and control arrangements operating within the Yorkshire Purchasing Organisation (YPO).
- 1.2. This opinion is based upon the audit work completed for the reporting period January to December 2018.

2. BACKGROUND INFORMATION

- 2.1 The Terms of Reference for the Audit and Scrutiny Sub-Committee include a requirement to 'provide the Management Committee with a reasonable assurance of the efficient and effective operations of the overall internal control environment within YPO, through a systematic appraisal of its framework of internal controls, processes and data quality'.
- 2.2 Internal Audit support the Audit and Scrutiny Sub-Committee in meeting this requirement. Currently, the internal audit provision is provided by Wakefield Council's Internal Audit and Risk Service and as such must conform to the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS).
- 2.3 The PSIAS requires the chief audit executive (i.e. the Service Manager for Internal Audit and Risk) to:
- Develop a risk-based audit plan that takes into account the requirement to produce an annual internal audit opinion;
 - Deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. This opinion must conclude on the adequacy and effectiveness of the organisation's framework of governance, risk management and control; and,
 - Ensure that the annual report incorporates:
 - The opinion;

- A summary of the work that supports the opinion; and,
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

2.4 The ‘Three-year Internal Audit Plan for 2018 to 2020’ was approved by the Management Committee at the meeting held on the 23rd March 2018. Input had previously been received from the Audit and Scrutiny Committee (16th February 2018 meeting) and the Section 151 Officer (Chief Finance Officer for Wakefield Council).

2.5 Section 3 of this report sets out the annual audit opinion and Section 4 details the audit work that has been completed to reach that opinion. Section 5 of the report details the progress being made against our Quality Assurance and Improvement Programme.

3. Annual Audit Opinion

3.1 From the work undertaken by Internal Audit during 2018, key controls were found to be in place to manage associated risks to the required level. No significant errors, losses or omissions have been identified through the systems reviewed. Where opportunities for improvements have been identified, we have received a commitment from senior management to address the issues raised.

3.2 Although an opinion of ‘partially implemented’ has been provided for the follow-up General Data Protection Regulations review it should be noted that the initial assessment provided an opinion of ‘mostly effective’. The weaknesses identified are not material enough to have a significant impact on the overall opinion on the adequacy of YPO’s governance, risk management and control arrangements. On this basis a satisfactory overall opinion is provided for 2018, based on the audit work detailed within this report.

3.3 The audit work undertaken to support this opinion has been conducted in accordance with the mandatory requirements of the Public Sector Internal Audit Standards.

4. Basis of the Annual Internal Audit Opinion

4.1 The annual audit opinion on the adequacy and effectiveness of the control environment for 2018 is based on the findings and assurance provided by the scheduled reviews undertaken throughout the year.

4.2 Table 1 provides a summary of the audits completed during 2018 and the individual opinion levels provided. The rest of this report details the process that has been followed to determine the priorities for the proposed draft audit plan.

Table 1 – Summary of Internal Audit Work Completed in 2018

| Audit Title | Audit Opinion Level |
|---|---------------------|
| <i>Section 151 Assurance Work, based on key financial systems</i> | |
| Budgetary Control | Fully Effective |
| Main Accounting System | Mostly Effective |
| <i>Governance and Risk Based Audits, linked to the delivery of YPO objectives and management of strategic risks</i> | |
| Counter-Fraud and Bribery Arrangements | Mostly Effective |
| General Data Protection Regulations | Mostly Effective |
| ICT Change Control | Mostly Effective |
| Warehouse Management and Stock Control | Mostly Effective |

| Audit Title | Audit Opinion Level |
|---|-----------------------|
| Workforce Skills Development | Mostly Effective |
| YPO Trading Company Governance Arrangements | Mostly Effective |
| <i>Follow-up Audit Work, this provides assurance on the implementation of previous audit recommendations (typically where an opinion of partially effective or ineffective has been provided)</i> | |
| General Data Protection Regulations Follow-up | Partially Implemented |

4.3 Table 2 below, provides a summary of the opinion levels that were used for the audits completed in 2018.

Table 2 – Current Internal Audit Opinion Levels

| Opinion | Definition |
|---------------------|--|
| Fully Effective | The key controls in place and working are fully effective as a means of managing the potential impact of the risks reviewed, and maximises the likelihood of achieving associated key business objectives. |
| Mostly Effective | Most key controls were found to be in place and working as a means of managing the potential impact of the risks reviewed. However, some improvement is required in order to maximise the likelihood of achieving associated key business objectives. |
| Partially Effective | Some key controls were found to be in place and working as a means of managing the potential impact of the risks reviewed. However, significant improvement is required in order to maximise the likelihood of achieving associated key business objectives. |
| Ineffective | Evidence was found of a significant lack of operation of key controls, as a means of managing the potential impact of the risks reviewed to the extent that there is limited or no assurance that associated key business objectives will be achieved. |

Key Financial Systems Assurance

4.4 In line with the Three-Year Internal Audit Plan we complete a review of all key financial systems over a three year period. As part of this cycle a review was completed of the budgetary control arrangements and the main accounting system.

4.5 The scope of the budgetary control audit was to review the arrangements in place for setting the budget and the monitoring arrangements. Overall, a sound system of control was in place and no audit recommendations were made, this resulted in an opinion of ‘fully effective’.

4.6 The scope of the main accounting system review was to gain assurance on the adequacy of the following areas:

- Bank reconciliation process;
- Governance arrangements (Contract and Financial Procedure Rules);
- Journals; and,
- Suspense Account.

4.7 There were satisfactory controls in place for these areas with one medium priority recommendation for an authorised signatory list to be maintained to support authorisations outside of the Navision accounting system. A further two low priority recommendations were made resulting in an opinion of ‘mostly effective’.

Governance and Risk Based Audits Assurance

4.8 There were six audits completed in 2018 that fell into this category of audit work and each had an opinion of ‘mostly effective’. Table 3 provides a summary of the scope and key findings from this work.

Table 3 – Summary of the scope and key findings

| Audit Title | Scope of Audit | Key Recommendations |
|--|---|--|
| Counter-Fraud and Bribery Arrangements | The objectives of the audit were to seek assurance on the effectiveness of: <ul style="list-style-type: none"> • Acting on recommendations from previous audit investigations; and, • The robustness of counter-fraud and bribery investigations. | There were 3 high priority audit recommendations relating to reviewing the existing Employee Code of Conduct and Whistleblowing Arrangements, as well as raising the profile at Board and team meetings. |
| General Data Protection Regulations | The objective of the audit was to seek assurance on the adequacy of progress being made to comply with GDPR. | There were four high priority audit recommendations to: agree the timescales for implementing actions on the GDPR Action Plan; to focus on the high priority actions; training of employees and to review the arrangements with Calderdale Council over the Data Protection Officer role. |
| ICT Change Control | We reviewed the CRM ICT system and sought assurance on the effectiveness of controls around: <ul style="list-style-type: none"> • Back-up arrangements; • Access controls; • Software testing; and, • User acceptance testing and training. | It was recommended that the network passwords should be strengthened and the number of system administrator accounts reviewed to ensure they are appropriate. The implementation of these recommendations will strengthen controls to mitigate the risk of hacking, fraud and error. |
| Warehouse Management and Stock Control | The objectives of the audit were to seek assurance on the effectiveness of: <ul style="list-style-type: none"> • Restricting access to stock; • Stock valuation; and, • Accounting for stock. | Three high priority audit recommendations were made, relating to: <ul style="list-style-type: none"> • Ensuring that WE orders are raised for any internal orders; • FLT drivers must have a picking note before goods are provided at the warehouse; • Access to the warehouse should be restricted at all times (i.e. doors must be closed and not propped open). |
| Workforce Skills Development | The objective of the audit was to gain assurance on the arrangements for developing YPO employees and performance management arrangements. | The main area for improvement was to minimise the number of disparate sources that record training. |
| YPO Trading Company Arrangements | The objectives of the audit were to seek assurance on the effectiveness of: <ul style="list-style-type: none"> • Governance arrangements; • Mitigating the risk of conflicts of interest; and, • Controls to protect the YPO brand. | There were no high priority recommendations. Three medium priority recommendations relating to the updating of the risk register. |

Follow-up Audits

4.9 One follow-up audit was completed in 2018, this related to the implementation of the high priority audit recommendations for the GDPR review. Based upon testing that was completed in December 2018 the recommendation that ‘any actions within the

GDPR action plan should be dealt with promptly and an agreed timescale set' has been mostly implemented.

- 4.10 There was one recommendation, to review the adequacy of arrangements with Calderdale Council in respect of the Data Protection Officer, which had not been progressed. The remaining high priority audit recommendations were progressing and management was aware of reasons for delays. As an example some staff have not had GDPR training as they were on long-term leave.

Other Audit Work

- 4.11 Internal Audit has adopted a consultancy style role in respect of work undertaken on the LINK programme in 2018.
- 4.12 There have been two main strands to audit's work. Firstly, in acting as a critical friend to challenge any aspects of the programme as it was felt necessary. This work most notably focussed on risks associated with the programme, the barriers that could prevent successful delivery of the programme, and the adequacy of actions being taken to address any such barriers to then allow the programme to fully meet its aims and objectives. The second aim has been to consider development of the programme linked to Internal Audit's ongoing assurance role.
- 4.13 Work in 2018 has included regular meetings with the Programme Manager with responsibility for the LINK programme, evaluation of documentation as necessary and reports being made to the Director of YPO where appropriate to do so.

5. Quality Assurance and Improvement Programme and Conformance with PSIAS

Internal Audit Performance

- 5.1 The Audit and Scrutiny Sub-Committee's Terms of Reference include the remit to 'consider internal audit performance'. This section of the report summarises the performance information for Internal Audit.
- 5.2 Fundamental to the performance of Internal Audit is the assessment that Internal Audit performs in accordance with the PSIAS. The standards require that an external assessment is conducted at least every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 5.3 Our last external assessment was completed in 2016 by the Head of Audit for Calderdale Council. The review concluded that our Service conforms to the requirements of the PSIAS (the highest rating). Annual internal assessments were completed in 2017 and 2018, which provided the same conclusion. A new assessment will be completed in March 2019.

Proficiency and Due Professional Care

- 5.4 The PSIAS require that all internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. As part of this process auditors must enhance their knowledge, skills and other competencies through continuing professional development.
- 5.5 It can be confirmed that all members of the audit team are professionally qualified (to at least AAT Standard) and have a good mix of skills and experience. In addition the Service has access to a professionally qualified risk officer and dedicated team of corporate fraud officers.
- 5.6 The appraisal process includes a review of continuing professional development being completed by all audit staff. This is supplemented by any individual requirements for professional bodies that the auditor is a member of.

Quality

- 5.7 All audit work and reports are subject to a review process to maintain a good standard of work. In addition, as part of our Quality Assurance and Improvement Programme we are reviewing our quality processes and Technical Manual to ensure they remain fit for purpose.
- 5.8 A customer satisfaction questionnaire (CSQ) is submitted following the issue of the final report. The questionnaires ask for the client’s opinion (the agreed key contact) on a range of issues with an assessment ranging from 1 (poor) to 4 (very good). Table 4 provides a summary of the questionnaires received for the audit work carried out in 2018. It is pleasing to note the overall good scores received from managers at YPO.

Table 4 – Summary of the returned CSQ’s

| Score | Input to Scope | Professionalism | Effectiveness of Communication | Timeliness of audit testing | Timeliness of Report | Usefulness of recommendations | Added value of audit | Overall opinion |
|-----------|----------------|-----------------|--------------------------------|-----------------------------|----------------------|-------------------------------|----------------------|-----------------|
| Very Good | 4 | 5 | 6 | 4 | 6 | 4 | 4 | 5 |
| Good | 2 | 1 | 0 | 2 | 0 | 2 | 2 | 1 |
| Fair | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Poor | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

- 5.9 In order to support our objective of continual improvement we would encourage the completion of all CSQ’s issued to help us identify potential areas for improvement.

Quality Assurance and Improvement Action Plan (QAIP)

- 5.10 Table 5 provides a summary of the latest QAIP, this includes the findings from the last external review in 2016. Although the review was aimed at the delivery of the internal audit service at Wakefield Council it is useful to reflect on any implications for YPO.
- 5.11 As previously stated a new internal review of conformance with the PSIAS will be completed in March 2019. The Service Manager for Internal Audit and Risk will notify this Committee of any significant amendments and will fully report the outcome in 2020. In the meantime the views of senior managers and Members of the Audit Committee would be welcome on the progress of addressing issues raised in Table 5.

Table 5 – Summary of the Quality Assurance and Improvement Programme

| Ref | Recommendation | Our Response | Action Date | Comments |
|--|--|---|---------------|--|
| Purpose, Authority and Responsibility (Standard 1000) | | | | |
| 1 | Internal Audit reports should be reported in the name of the designated Head of Audit. | Agreed, reports to the Audit Committee will be reported in the name of the Head of Audit. | March 2017 | Progress reports and the Annual Report to YPO are in the name of the Head of Audit |
| Direct Interaction with the Board (Standard 1111) | | | | |
| 2 | To issue progress reports for each of the Audit Committee meetings. | Agreed. | May 2018 | No issues for YPO. |
| Proficiency and Due Professional Care (Standard 1200) | | | | |
| 3 | Job descriptions should include reference to PSIAS. | Agreed. | March 2019 | Ongoing, all JD’s will be fully reviewed. |
| Quality Assurance and Improvement Programme (Standard 1300) | | | | |
| 4 | To review performance reporting arrangements to | Agreed that feedback would be sought from | December 2018 | To seek views of YPO on the adequacy of |

| Ref | Recommendation | Our Response | Action Date | Comments |
|---|---|--|----------------|---|
| | the Audit Committee. | Members of the Audit Committee. | | performance reporting arrangements. |
| 5 | Reminders should be issued to chase unreturned CSQ's. | Agreed. | March 2017 | As above. |
| Managing the Internal Audit Activity (Standard 2000) | | | | |
| 6 | The Internal Audit Charter and Audit Manual should be refreshed. | Agreed. | September 2018 | New IA Charter in place and Audit Manual has been refreshed, due to be communicated in February 2019. |
| Planning (Standard 2010) | | | | |
| 7 | Consideration should be given to widening Member engagement during the planning process. | To be discussed with the Audit Committee. | March 2018 | To seek the views of YPO. |
| 8 | Formalise the risk assessment methodology. | Agreed. | March 2019 | Risk assurance maps are being developed to inform the planning process. |
| Nature of Work (Standard 2100) | | | | |
| 9 | The scope of audits to consider future risks and opportunities. | Agreed. | July 2017 | Internal Audit is part of a number of benchmarking groups to share good practice and identify emerging risks. |
| Engagement Planning (Standard 2200) | | | | |
| 10 | Scoping documents should be fully completed for all reviews or fields removed from the standard template. | Agreed. | March 2017 | A further review is being completed to capture input from the: <ul style="list-style-type: none"> • Risk Manager; • Counter-Fraud Officer; and, • ICT Auditor. |
| Communicating Results (Standard 2400) | | | | |
| 11 | The standard report format should include reference that the engagement has been conducted in conformance to the PSIAS. | To be discussed with our Internal Audit Working Paper Database provider. | December 2018 | Reviewing current reporting arrangements and future supply of our audit database. |
| Monitoring Progress (Standard 2500) | | | | |
| 12 | To automate the process for triggering follow-ups. | Agreed that this will be discussed with our provider. | September 2018 | As above, subject to a wider review. However, good compensating controls in place to capture when follow-up reviews are completed. |

6. STRATEGIC IMPLICATIONS

6.1 Section 2 of this report details how the audit plan has been developed, in particular linking with the 3 Year Strategic Plan and the risk registers maintained by YPO.

7. FINANCIAL IMPLICATIONS

- 7.1 The annual cost for the provision of Internal Audit for YPO is £45,000 per year.
- 7.2 The audit plan also takes into account the need to provide the Section 151 Officer (Chief Finance Officer for Wakefield Council) with independent assurance of the effectiveness and efficiency of controls for the main financial systems.

8. LEGAL IMPLICATIONS

- 8.1 There is a statutory requirement for an Internal Audit function within YPO, as set out in the Accounts and Audit Regulations and implied within the Local Government Act 1972, relating to the responsibility of a designated statutory s151 Finance Officer to gain assurance on the proper administration of the Organisation's financial affairs.
- 8.2 The Audit and Scrutiny Sub-Committee has delegated authority to provide the Management Committee with a 'reasonable assurance of the efficiency and effective operation of the overall internal control environment within YPO'. One of the sources of this assurance is through the work of Internal Audit.

9. EQUALITY IMPLICATIONS

- 9.1 Equality issues are taken into account when considering the Organisation's key strategic risks. Therefore, this will be reflected in the scheduled audits completed each calendar year.

10. RISK IMPLICATIONS

- 10.1 In line with the Public Sector Internal Audit Standards there is a requirement to set a risk-based audit plan. As detailed in Section 2 of this report one of the sources of information is YPO's risk register (for strategic and operational risks). In addition, input has been sought from senior management to help identify new and emerging areas of risk. Therefore, the scheduled audits have clear links to strategic risks at YPO.
- 10.2 In line with the terms of reference for the Audit & Scrutiny Sub-Committee, consideration of this report contributes to fulfilling its assurance role, in the ongoing review of internal controls and overall risk management arrangements.

11. RECOMMENDATION

- 11.1 Members note the comments detailed in the Quality Assurance and Improvement Programme and advise the Service Manager for Internal Audit and Risk of any suggestions for improvement.

Contact Officer:

Jason Brook, Service Manager for Internal Audit & Risk (Wakefield Council)
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E-mail address: jason.brook@wakefield.gov.uk

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| | |
|---|---|
|  | <p>YPO</p> <p>MANAGEMENT COMMITTEE</p> <p>TO BE HELD ON</p> <p>22ND MARCH 2019</p> |
|---|---|

TITLE: PROGRESS ON THE 2018 INTERNAL AUDIT PLAN

REPORT OF: SERVICE MANAGER FOR INTERNAL AUDIT & RISK

1 PURPOSE OF REPORT

1.1 This report is produced by the Service Manager for Internal Audit & Risk to provide Members with details of Internal Audit's performance and work since the last meeting of the Audit & Scrutiny Sub-Committee on the 2 November 2018.

2 BACKGROUND INFORMATION

2.1 The report, attached as Appendix A, records details of audit work undertaken and reports issued, between 1st January and 31st December 2018.

2.2 In line with agreed protocols, a further progress report will be submitted to the next meeting of the Audit & Scrutiny Sub-Committee.

3 STRATEGIC IMPLICATIONS

3.1 Internal Audit's work includes involvement at a strategic level. A number of audits in the 2018 Internal Audit Plan link to various YPO strategic risks.

4 FINANCIAL IMPLICATIONS

4.1 There are no specific financial implications associated with this report. The cost of the audit work is met from the 2018 budget approved by YPO Members.

5 LEGAL IMPLICATIONS

5.1 There is a statutory requirement for an Internal Audit function within YPO, as set out in the Accounts and Audit Regulations and implied within the Local Government Act 1972, relating to the responsibility of a designated statutory s151 Finance Officer to gain assurance on the proper administration of the Organisation's financial affairs.

6 EQUALITY IMPLICATIONS

- 6.1 Equality issues are taken into account when considering the Organisation's key strategic risks.

7 RISK IMPLICATIONS

- 7.1 Internal Audit makes a significant contribution to providing management and Members with assurances on the Organisation's systems of internal control. Its contribution assists in identifying areas for improvement in control in the management of key risks.
- 7.2 In line with the terms of reference for the Audit & Scrutiny Sub-Committee, consideration of this report contributes to fulfilling its assurance role, in the ongoing review of internal controls and overall risk management arrangements.

8 RECOMMENDATION

- 8.1 That Members comment on and endorse the Internal Audit Progress Report attached as Appendix A to this report.

Contact Officer:

Jason Brook, Service Manager for Internal Audit & Risk (Wakefield Council)
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Internal Audit Progress Report As At 31 December 2018

REPORT OF: Jason Brook Service Manager for Internal Audit & Risk (Wakefield Council)
 Email address: jason.brook@wakefield.gov.uk

PURPOSE OF REPORT

1. The purpose of this report is to:
 - 1.1 Present to the YPO Audit & Scrutiny Sub-Committee details of Internal Audit’s performance and work since the last meeting of the Audit & Scrutiny Sub-Committee on the 2nd November 2018.
 - 1.2 Highlight any significant issues arising from audit work and the current position on implementing agreed actions.
 - 1.3 Consider future audit work.

PROGRESS ON THE 2018 AUDIT PLAN

2. Six Internal Audit reports have been issued since the last meeting of the Audit & Scrutiny Sub-Committee in November 2018, as shown below:

| Details of Audit Opinion, key messages and actions |
|---|
| <p>Audit of Anti-Fraud and Bribery Arrangements (Issued 10/12/18)</p> <p>Audit Opinion: Mostly Effective</p> <p>The audit opinion of Mostly Effective reflects that within most areas, controls were found to be in place to mitigate the risk of fraud and bribery occurring.</p> <p>Since the frauds of 2016 and 2017, management are clearly aware of the fraud risks and have implemented controls to mitigate the likelihood of recurrence as well as aiming to disseminate key messages relating to fraud risks across the Organisation. Ongoing vigilance together with a proactive approach to maintaining awareness levels and keeping the fraud and bribery message ‘alive’ are seen as essential.</p> <p>Three high priority recommendations for improvement were identified, these are summarised below:</p> <ul style="list-style-type: none"> • Updating the Employee Code of Conduct - ensuring that all staff read and confirm their understanding of this and that they will abide by the Code. The Code then needs to be re-reviewed, as a minimum every 3 years. • Board and Team Meetings should routinely focus on fraud and bribery and regular use should be made of Fraud and Bribery Assessments. • Senior Management need to be proactive in forming a view on how likely it is that suspected fraud or bribery attempts will be reported and addressing any related issues. <p>Actions taken by YPO: Action plan was returned by 24/1/19 as requested with all actions agreed and completion dates confirmed.</p> |
| <p>Audit of Warehouse Management and Stock Control System (Issued 29/1/19)</p> <p>Audit Opinion: Mostly Effective</p> <p>The audit opinion of Mostly Effective reflects that within most areas, controls were found to be in place to mitigate the risks identified. The main concerns identified during the audit were that some stock record discrepancies were identified which may be attributable to stock being taken by staff for marketing events, without any paperwork being submitted to support the stock issue. There were also occasions identified where unauthorised personnel have gained access to the building however no stock losses were suffered</p> |

as a result. Recommendations have been raised and agreed to address these weaknesses.

Actions taken by YPO: To return Action Plan detailing agreed dates for action and responsible officers by 1/3/19.

Details of Audit Opinion, key messages and actions

GDPR Follow Up (Issued 11/1/19)

Audit Opinion: Partially Implemented

A follow up audit took place to assess the implementation of recommendations raised in the Adherence to Legislation GDPR audit report issued (5/7/18). The follow up audit focussed on high priority recommendations only. The opinion of **Partially Implemented** indicates that while some action has been undertaken to implement the agreed recommendations from the original audit report there are some actions still required to be taken. Principally, these are to ensure that all staff have received training on GDPR and that the arrangement with the Data Protection Officer (DPO) has been reviewed prior to the renewal date of March 2019, to ensure that it remains fit for purpose and demonstrates value for money.

Actions to be taken by YPO: To return Action Plan detailing agreed dates for action and responsible officers by 8/3/19.

Main Financial Systems: Budgetary Control (Issued 21/12/18)

Audit Opinion: Fully Effective

A core element of our annual audit plan is the coverage of YPO's main financial systems. As part of this, a review of the Budgetary Control arrangements was undertaken. An opinion of **Fully Effective** was given on this area, which recognises that key controls are operating effectively within the service with no key areas for improvement being identified.

Based on the above opinion, management need only continue to manage risks as at present, in order to maintain the fully effective assessment and minimise the likelihood of them materialising.

Actions to be taken by YPO: No further action.

Main Financial Systems: Main Accounting System (Issued 14/1/19)

Audit Opinion: Mostly Effective

Our work on Main Accounting System covered the following elements:

- FPRs and CPRs
- Suspense account
- Journals
- Bank reconciliation

The audit opinion of **Mostly Effective** demonstrates that most expected key controls were found to be in place and operating effectively. In this respect the only points of note arising from the audit were in respect of revisions to Standing Orders for Contracts and Financial Procedure Rules (SOFC) and the roll out of training to Finance staff. It is understood that the Standing Orders for Contracts and Financial Procedure Rules (SOFC) has now been reviewed. However, these have yet to be reported to the YPO Board, which is due to happen in January 2019. Training will then be provided to the relevant staff to coincide with the new ERP going live.

Actions to be taken by YPO: To return Action Plan detailing agreed dates for action and responsible officers by 14/3/19.

Details of Audit Opinion, key messages and actions

Audit of Risk Management (Issued 28/1/19)

Audit Opinion: Mostly Effective

The audit opinion of **Mostly Effective** demonstrates that most expected key controls were found to be in place and operating effectively. There were several areas where improvements would be beneficial in managing risks, of which the most significant detailed below:

- The risk appetite has not been fully explored and determined for each area of risk.
- The Risk Management Policy does not include a requirement to rate the adequacy of identified controls.
- The risk owner role appears to have been overlooked from the RM Policy document. This role is a key part of the risk management process and requires inclusion within the policy.
- Risk management training has not been provided to relevant staff.

All recommendations in the report have been discussed and agreed.

Actions to be taken by YPO: To return Action Plan detailing agreed dates for action and responsible officers by 23/3/19.

4. At the date of writing this report, the following Internal Audit work is ongoing:
 - 4.1 Consultancy, advice and support work as requested to the Link programme relating to the installation of an ERP (enterprise resource planning) system.
5. In terms of Internal Audit's performance against its own local Key Performance Indicators, the position as at 31 December 2018 is summarised below:
 - 5.1 A three year Audit Plan was agreed at the February meeting of the Audit & Scrutiny Sub-Committee covering 2018 – 2020. This is the first year of the three year plan and all planned audit work for 2018 was completed by 31 December 2018, with some reports being finalised in early January 2019.
 - 5.2 Four client surveys have been returned since the last report, all of which met the quality standards required by Internal Audit. Three were returned with opinions of 'Very Good' (GDPR Follow Up, Review of Risk Management and Review of Warehouse Management) and one with 'Good' (Budgetary Control).
 - 5.3 All Internal Audit work is subject to a quality control process, including formal review of work by the appropriate level of audit management.

WORK PRIORITIES FOR THE NEXT FEW MONTHS

6. The priorities for Internal Audit up to the end of March 2019 will be to focus on reviewing the audit plan for 2019/20 and reprioritising coverage as applicable which will be determined following discussions with YPO's Deputy Managing Director at the end of January 2019.
 - 6.1 Consultancy, advice and support work to the Link programme will continue as requested.

- 6.2 Follow up work will be undertaken on any audits where an opinion of Partially Effective or Ineffective is given.

OUTSTANDING REPLIES TO AUDIT REPORTS

7. There are no outstanding replies to audit reports.



YPO
MANAGEMENT COMMITTEE
TO BE HELD ON
22ND MARCH 2019

TITLE: FINANCIAL PROCEDURE RULES & STANDING ORDERS FOR CONTRACTS

REPORT OF: DEPUTY MANAGING DIRECTOR

1. BACKGROUND INFORMATION

- 1.1 The Financial Procedure Rules and Standing Orders for Contracts are key elements of YPO's governance arrangements and make a clear, transparent statement that aims to promote the highest standards in financial and contract management and activity. They should be reviewed and updated on a regular basis to ensure compliance with current regulations and best practice and to consult founder members, as set out in the Management Agreement.
- 1.2 A full review and rewrite of the Financial Procedure Rules was completed in late 2017 and approved by the Board in January 2018 and the Audit & Scrutiny Sub-Committee in February 2018. They have now been reviewed again by the Head of Finance and no changes are proposed. It is anticipated that they will be reviewed again after the implementation of the LINK Project in 2019.
- 1.3 The Standing Orders for Contracts were reviewed in December 2018 by the Head of Finance and the Contracts Manager and no changes are proposed. As they were not presented to the Board or Audit & Scrutiny Sub-Committee in 2018 they are attached at Appendix 1. It is anticipated that they will be reviewed again in mid-2019 to take into account any implications arising from Brexit.

2. STRATEGIC IMPLICATIONS

- 2.1 Strong contract and financial management procedures and controls are essential to the delivery of YPO's three year strategy and objectives, and to the good relationship between YPO and its Management Committee.

3. FINANCIAL/RESOURCE IMPLICATIONS

- 3.1 There are no additional financial or resource implications arising from this report.

4. LEGAL IMPLICATIONS

- 4.1 There are no additional legal implications arising from this report.

5. RISK IMPLICATIONS

- 5.1 There is a risk that officers will not comply with the Financial Procedure Rules and Standing Orders for Contracts: this risk will be mitigated by ensuring that mandatory training takes place for all relevant staff.

6. CONSULTATION

- 6.1 The Finance and Contracts Management Team and the Deputy Managing Director have been consulted on this report.

7. OPTIONS APPRAISAL

- 7.1 None: the Financial Procedure Rules and Standing Orders for Contracts are key elements of YPO's governance arrangements and regular update ensures they reflect the most up to date regulation.

8. RECOMMENDATIONS

- 8.1 Members note that there are no changes to the Financial Procedure Rules in 2018 but that they will be reviewed again after implementation of the LINK project in 2019.
- 8.2 Members note that there are no changes to Standing Orders for Contracts at this time (Appendix 1) but that they will be reviewed again in mid-2019 following Brexit.

9. REASONS FOR RECOMMENDATIONS

- 9.1 Financial Procedure Rules and Standing Orders for Contracts are key elements of YPO's governance arrangements.

SERVICE DIRECTOR: PAUL SMITH, DEPUTY MANAGING DIRECTOR

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APPENDICES:

Appendix 1: Standing Orders for Contracts

Better value, delivered.



Standing Orders for Contracts and Financial Procedure Rules

Document Control Page

| | |
|----------------------------------|--|
| Document Type | Standing Orders |
| Document Ownership | Corporate Governance |
| Title of Document | Standing Orders for Contracts and Financial Procedure Rules |
| Reference Number | |
| Controlled By | Head of Finance |
| Created By | Head of Finance / Contracting Manager |
| Approved By | Board of Directors |
| Submitted for approval to | Management Committee |
| Approved | March 2016 |
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| Current Version | 3.0 |
| Distribution | Directors, Managers, Intranet |
| Replaces Document | Standing Orders for Contracts and Financial Procedure Rules 2015 |

YORKSHIRE PURCHASING ORGANISATION

Contents:

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16. Contracts Between £75,000 and EU Thresholds
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22. Purchasing
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Section 2 Financial Procedure Rules

This section of the document has been replaced by separate Financial Procedure Rules agreed by the YPO Board in January 2018.

1 DEFINITIONS

- 1.1 **“Organisation”** means the consortium of local authorities known as the Yorkshire Purchasing Organisation.
- 1.2 **“Managing Director”** means the current Managing Director of the Yorkshire Purchasing Organisation or an officer designated by him/her.
- 1.3 **“Monitoring Officer ”** means an officer designated by Lead Authority responsible to the Management Committee of the Organisation who will secure legal and administrative services for the Organisation (other than the administrative services performed by the Managing Director or other officer designated by him/her)
- 1.4 **“Chief Financial Officer”** means the current Director of Finance of the Lead Authority responsible to the Management Committee of the Organisation for providing financial advice to the Organisation (other than the financial services performed by the Managing Director or other officers designated by him/her). In fulfilling this role the Chief Financial Officer will be able to rely on the Managing Director of the Organisation to keep him/her informed on all aspects of his/her role relating to the Organisation under Section 151 of the Local Government Act 1972, including compliance with the rules forming the Financial Procedure Rules and Standing Orders relating to Contracts of the Organisation.
- 1.5 **“Management Committee”** means the elected members of the Organisation constituting its Management Committee and any of its Sub Committees.
- 1.6 **“Lead Authority”** is the member authority chosen by the Management Committee to provide support services to the Organisation.
- 1.7 **“Chairperson”** means the current Chairperson of the Management Committee.
- 1.8 **“Framework”** means an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price, quality and where appropriate the quantity envisaged.
- 1.9 **“Contract”** means an agreement made by the Organisation with another party creating a legal relationship enforceable by law.
- 1.10 **“Goods”** includes all supplies and materials that the Organisation purchases or obtains.
- 1.11 **“Services”** includes all services, which the Organisation purchases or obtains including but not limited to advice, consultancy, agency staff, third party logistics etc.
- 1.12 **“Works”** includes the construction of new buildings and works, restoring and common repairs.
- 1.13 **“Whole Life Costs”** means the whole costs of the provision of the works, goods and/or services **from inception to disposal** including any annual maintenance costs or annual fees (i.e. software licences)

1.14 “OJEU” means the Official Journal of the European Union.

2. **INTRODUCTION**

- 2.1 YPO’s Standing Orders for Contracts aim to promote the highest standards in procurement activity ensuring probity, integrity, accountability and impartiality in making a clear, understandable, transparent and fair selection of suppliers by the Organisation, and form part of the governance arrangements of the Organisation
- 2.2 YPO’s Standing Orders for Contracts also promote the delivery of value for money and the required levels of quality and performance in all contracts that are let. The Organisation is committed to the overall principles that:
- a) All purchases will be based on the most economically advantageous tender. Unless agreed by the Managing Director.
 - b) Goods and services will be acquired by fair, objective and transparent competition.
- 2.3 YPO’s Standing Orders for Contracts also aim to deliver competitive procedures and the avoidance of practices which may restrict, prevent or distort competition.
- 2.4 Procurement will be carried out in compliance with the legal and ethical requirements referred to in these Standing Orders for Contracts, and taking into account the Organisation’s commitment to continuous improvement, quality and environmental issues.
- 2.5 These Standing Orders for Contracts apply to all contracts for Goods, Services and Works.
- 2.6 All values referred to in these Standing Orders for Contracts are exclusive of VAT.
- 2.7 Any dispute regarding interpretation of these Standing Orders for Contracts shall be referred to the Managing Director or his/her nominated officer.
- 2.8 The Managing Director or his/her nominated officer shall undertake a formal review of these Standing Orders for Contracts on an annual basis.

3. **Responsibility for Observance**

- 3.1 The Management Committee is responsible for regulating and controlling the contractual arrangements of the Organisation.
- 3.2 The Managing Director shall operate in accordance with these Standing Orders for Contracts, the Organisation’s Financial Procedure Rules and the Managing Director’s Scheme of Delegation and the law of the land with respect to all matters relating to contracts.

4. **Conduct of Members and Employees**

- 4.1 In dealing with matters referred to in these Standing Orders for Contracts employees shall abide by the provisions of the Organisation’s Code of Conduct Policy (particularly Sections: (7) Outside Commitments; (8) Personal Interests; (10) Separation of Roles During Tendering and (11) Corruption, Fraud, Bribery

and Theft) and the rules contained in these Standing Orders for Contracts and the Organisation's Financial Procedure Rules.

- 4.2 So far as possible, the election to the Management Committee of anyone with a significant involvement in any way with any firm likely to be employed by the Organisation, or the employment of any officer with a similar involvement, should be avoided.
- 4.3 Members and employees of the Organisation shall not sell any goods or services to the Organisation.
- 4.4 No contractor, supplier or service provider in which a member or officer has a pecuniary interest may be chosen or appointed, other than by following the procedures laid down in these Standing Orders for Contracts, the Organisation's Code of Conduct Policy and without having disclosed his/her interest by completing a Declaration of Interest Form in accordance with statutory requirements and the Organisations Register of Employee Interests Policy.

5. Propriety

- 5.1 The Organisation shall conduct all its operations with the utmost propriety. With this in mind the Managing Director shall have direct access to the Secretary, the Chief Financial Officer or the Chairman of the Organisation, in matters touching on the propriety of purchasing arrangements. The Managing Director shall provide information and advice as necessary, but where circumstances clearly require a completely impartial approach, initial decisions shall be taken by the Secretary, the Chief Financial Officer or the Chairman, as appropriate. All such matters must be referred to the Management Committee either for decision or, where action has already been taken, for confirmation.

6. Compliance

- 6.1 Contracts entered into on behalf of the Organisation shall be made in accordance with these Standing Orders for Contracts, all relevant EU and UK legislation requirements and timescales, including case law.
- 6.2 Where an appropriate standard or code of practice issued by the European Union is current at the date of the tender, every contract subject to these Standing Orders for Contracts shall require that all goods and materials, used or supplied, and all workmanship provided shall be in accordance with that standard.
- 6.3 The Contracts Team and all other officers with budget responsibilities within the Yorkshire Purchasing Organisation are responsible for ensuring that processes adopted are compliant with these Standing Orders for Contracts.
- 6.4 The Procurement route should take into account instances where Goods, Services and Works can be obtained via appropriate, existing, approved and enabled arrangements.

These include:

- 6.4.1 The use of a Member Authority's in-house services such as payroll, legal, vehicle maintenance etc.

- 6.4.2 Nationally negotiated contracts such as those arranged by any Public Sector Body or Public Buying Organisations such as Eastern Shires Purchasing Organisation and the Crown Commercial Service.

7. Exceptions

- 7.1 Exceptions from any of the provisions of these Standing Orders for Contracts shall only be made by decision of the Management Committee or in compliance with the terms of the Managing Director's Scheme of Delegation and a written record signed by the Managing Director in the form of an Exception Report will be kept centrally in an electronic file held by the Contracts Team

- 7.2 Subject to statutory requirements tenders need not be invited in accordance with these Standing Orders for Contracts in the following cases:

- a) Goods and Services which are obtainable from one contractor only and for which there is clear recorded evidence that no satisfactory alternative is available.
- b) The execution of Works of a specialised nature where there is clear recorded evidence that they may only be carried out by one contractor.
- c) Goods of a nature entrusted to a particular public utility, local authority (or similar) or other statutory undertaker.
- d) The purchase of Goods and Services from a central or local government purchasing organisation where YPO is satisfied that the procurement has been undertaken in accordance with legislation and any specific Call Off procedure is followed.
- e) The purchase of Goods and Services where prices of the goods are wholly controlled by trade organisations or government order and no reasonably satisfactory alternative is available.
- f) The purchase of Goods and Services in response to emergency.

8. Freedom of Information

- 8.1 The Freedom of Information Act 2000 (FOIA) & Environmental Information Regulations 2004 provide the right of public access to information held by public authorities such as YPO.

- 8.2 All requests received by the Organisation under FOIA in respect of tenders and contracts should be channelled through YPO's Risk, Audit and Assurance Officer immediately upon receipt to enable the Organisation to comply with its Access to Information Policy.

- 8.3 The FOIA includes potential exemptions on the basis of commercially confidential information. However, tenderers will be made aware of the implications of the Act at the tender stage.

9. Equality and Diversity

- 9.1 Contractors, suppliers and service providers will not unlawfully discriminate within the meaning and scope of any law, enactment, order or regulation relating to discrimination (whether in race, gender, religion, disability, sexual orientation, age or otherwise) in employment.
- 9.2 Contractors, suppliers and service provider's will be required to take all reasonable steps to secure the observance of YPO's framework agreement / Contract by all servants, employees or agents of their organisations or those of their suppliers and sub-contractors employed in the execution of the Framework Agreement / Contract.

10. Terms and Conditions

- 10.1 Contracts and Framework Agreements will use YPO's standard terms and conditions. Variations from the standard format must be approved by YPO's Contracting Manager and if necessary legal advice sought. Terms and conditions will be included with tender documents and issued to suppliers as part of the invitation to tender.
- 10.2 Tenderers are expected to accept YPO's Terms and Conditions held within the Framework Agreement or Contract without qualification. Acceptance of qualified terms and conditions will only be made at the Contracting Manager's discretion and written assessment should be made of its implications and held on a central file within the Contracts Team. YPO is not obliged to accept any variation to terms and conditions and in general, any such relaxation will only be granted if it is considered reasonable under the circumstances, provides a commercial advantage to YPO, the level of risk is assessed as acceptable and it does not distort competition between the tenderers
- 10.3 The tender documents should give tenderers the opportunity to raise any queries in relation to the terms and conditions during the "Clarification Question" stage of the process to allow for all queries to be addressed and a response (if required) can be circulated to all tenderers. Any legal queries raised during the tender process should be referred to the Contracting Manager.
- 10.4 The tender documents should also state that any legal queries raised after the deadline for submission of tenders or any included in a tenderers bid submission will not be considered.
- 10.5 Contracts for the execution of Works or the purchase of Goods or Services where urgency is too great to permit the making of a contract in writing will be confirmed in writing at the earliest opportunity.

11. Tendering Process

- 11.1 Yorkshire Purchasing Organisation's preferred route is to utilise an electronic tendering system (ETS) for all tendering activity. Any exception to this process must be agreed on a case by case basis with the Contracts Team with full details of the reason for change retained in writing on file.
- 11.2 The ETS provider is sourced, administered and managed by the Contracts Team
- 11.3 User training is provided by the Contracts Team

- 11.4 Cost may be evaluated through an e-auction where appropriate.
- 11.5 When commencing the procurement of Goods, Services or Works for contracts within each band the procurer must complete and return to the Contracts Team the New Business Detail Requirement Form which will form the basis of the initial ETS set up for the procurement.
- 11.6 Gateway sign off stages for contracts within each band will be dependent on the monetary, complexity and risk value of the contract and will be confirmed by the Contracts Team at the time of tendering.
- 11.7 Any exception to the procurement processes detailed in this document will be at the Managing Director's discretion as detailed above at point 7. A written record documenting the reasons for the exception authorised and signed by the Managing Director, will be retained on an electronic central file held by the Contracts Team.

12 **Sample Process**

- 12.1 Where samples are requested they must be provided in accordance with the instructions in the tender document by the set deadline.
- 12.2 They should be sent to the front reception of YPO site 41 FAO The Contracts Team.
- 12.3 Samples are then required to be held in the sample room until the tender deadline has passed when they will then be passed to the relevant buyer in order to be evaluated.
- 12.4 Samples from successful suppliers shall be stored in the warehouse for the life of the contract.
- 12.5 Samples from unsuccessful suppliers are to be returned to the supplier wherever possible
- 12.6 If the unsuccessful supplier is unable to arrange collection, or does not require the samples to be returned. A list of these products should be submitted to the Asset Management Team who will log this on their "Unsalable Items" Spread Sheet. Items will be used internally, donated to charity or disposed of.
- 12.7 Samples from unsuccessful suppliers should be returned or passed to the Asset Management Team within one (1) month of the award of the contract

13 **Tender Information Obligation**

- 13.1 As part of the Local Government Transparency Code the Organisation has an obligation to publish information on a monthly/quarterly basis in relation to invitations to quote and invitation to tender for all contracts to provide goods and/or services that exceed £5,000. However, Central Government later issued guidance stating that where contracting authorities already had a limit e.g. £25,000 in their internal governance procedures this would be sufficient for the purposes of the Code.
- 13.2 The information to be published is reference number; title; description of

goods/services; start, end and review dates; title of agreement; supplier name and details; sum to be paid over the length of the contract; the process used; whether or not the supplier is a small/medium enterprise and/or a voluntary or community sector organisation and the department responsible for the procurement.

14. Contracts / Frameworks under £25,000

14.1 This includes any procurement activity (internal or trading spend) involving an estimated aggregate Whole Life Costs value up to £25,000

14.2 The procurer may use any reasonable means to source supplier options but the tendering procedure and outcome must be managed and a written record must be retained. If requested to do so a copy must be provided to the Contracts Team on conclusion.

15. Contracts / Frameworks between £25,000 and £75,000

15.1 This includes any procurement activity (internal or trading spend) involving an estimated aggregate Whole Life Costs value between £25,000 and £75,000

15.2 There must be a minimum of three written quotes from selected suppliers unless agreed otherwise by the Contracts Team in exceptional circumstances.

15.3 The procedure must be carried out electronically via the ETS with a written record of the specification, the quotations, the evaluation process and notification of award and rejection. This written record must be retained.

16. Contracts / Frameworks between £75,000 and EU Thresholds for Goods, Services & Works

16.1 This includes any procurement activity (internal or trading spend) involving an estimated aggregate Whole Life Costs value between £75,000 and the EU Threshold for Goods, Services and Works.

16.2 The procurement activity must be advertised on Contracts Finder and awarded by the Contracts Team unless agreed otherwise by the Contracting Manager.

16.3 The entire process will be overseen and signed off by the Contracts Team.

16.4 The procedure must be carried out electronically via the ETS with a written record of the specification, the quotations, the evaluation process and notification of award and rejection. This written record must be retained.

17. Contracts / Frameworks above EU Thresholds for Goods, Services & Works

17.1 Procurement activity with an estimated aggregated Whole Life Costs value above EU Thresholds for Goods, Services and Works will be conducted by the Contracts Team or Procurement Services Department. To ensure compliance with EU rules and regulations the Contracts Team will oversee all tendering processes, ensuring a segregation of duties and a consistent approach.

- 17.2 All tenders must be advertised on Contracts Finder and advertised and Awarded in the OJEU.
- 17.3 Procurements must be processed via the ETS unless otherwise agreed by the Contracts Team. In the case of tenders for Goods or Services, the relevant officers should consider whether the contract will be of benefit to other public sector bodies.
- 17.4 The selection and award criteria, sub-criteria and weightings to be used in the evaluation process must be clearly communicated to all tenderers in the OJEU entry, in the Invitation to tender and on the ETS. These criteria must be followed during the evaluation process. Under no circumstances may any of the criteria be changed or new criteria introduced from those published.
- 17.5 Before commencing any tendering exercise an assessment of risk pertaining to the specific tender exercise will be undertaken. This will allocate the required sign off levels / stages which must be adhered to.
- 17.6 All legally required time limits must be followed as minimum
- 17.7 Sustainability considerations must be included in the criteria for award in the OJEU notice and tender documentation when pertinent to the contract.
- 17.8 The Social Value Act/added value must be considered within the tender plan and documentation if found to be pertinent to the services contract/framework.
- 17.9 In every instance detailed records will be held (electronically) of all stages of the process.

18. Receipt and Opening of Tenders

- 18.1 The receipt and opening of tenders will be undertaken using the ETS unless otherwise agreed by the Contracts Team.
- 18.2 The Contracts Team are responsible for receipting and opening all tenders unless otherwise agreed by the Contracting Manager.
- 18.3 Late tenders may be considered at the discretion of the Contracting Manager, if the Contracting Manager is satisfied that there was reasonable cause for the delay and fair competition has not been compromised. A record of this decision will be held centrally by the Contracts Team.
- 18.4 Using the ETS the Contracts Team will confirm the submissions received are against the correct tender.

19. Examination of Tenders

- 19.1 Tenders submitted in competition shall not be considered if:
 - a) The tender is in some way uncertain in its terms and it is unclear what the submission is offering,
 - b) There is evidence that the tender document has been altered without consent.

- 19.2 If a tender requires clarification on a technical or contractual matter all necessary communication must be properly recorded and remain confidential. Such clarification may only be undertaken when the process remains fair to all Tenderers and does not distort competition in any way.
- 19.3 During the period between the closing for the receipt of a tender and award, Tenderers may not seek to amend prices in any way, other than a genuine and obvious error. Such circumstances must be properly recorded on file and competition must not be distorted in any way. Evidence should always be provided that can be tracked back to the original quote.
- 19.4 If variations to specifications are to be examined and considered, tenderers must have been made aware in the invitation to tender document.

20. Acceptance of Tenders

- 20.1 The designated Procurement Officer(s) shall evaluate the tenders and make a recommended contract award based on the most economically advantageous tender to the sign off panel.
- 20.2 In the case of 2 or more tenders being equal, environmental considerations (transport, packaging and the company's environmental standing and performance) may be used to determine the successful bid. If all aspects are still equal the Managing Director shall decide and record the decision.
- 20.3 The proposed award would then be signed off by the tender team and a Tender Recommendation Form and a Regulation 84 Report shall be completed
- 20.4 The relevant company credit checks and any other necessary checks will be carried out by an agreed member of the tender team prior to contract award and copies of any searches and documents retained.
- 20.5 Signed letters of proposed acceptance and rejection shall be sent to Tenderers in the format provided by the Contracts Team initiating a mandatory standstill period before final contract award.
- 20.6 In the event of a request for a de-brief by an unsuccessful tenderer during the standstill period, the debrief will be organised by a member of the Contracts Team in line with YPO's internal best practice. A full record must be kept on file. Meetings will always involve a minimum of two members of YPO's staff including a member of the Contracts Team. The Contracts Team will advise on how to debrief organisations for under threshold tenders.
- 20.7 If the debrief is not carried out to the satisfaction of the unsuccessful tenderer who then initiates a legal challenge, or if a legal challenge is received without debrief and during the standstill period, the Contracts Officer shall meet with the tender team and the Contracting Manager will be informed and legal advice will be sought.
- 20.8 The acceptance of tenders and related communication will be undertaken using YPO's preferred route of the e-tendering system.

21. Claims from Contractors, Suppliers and/or Service Providers

21.1 Any claim from a contractor, supplier or service provider shall be referred to the Contracting Manager, Managing Director, Secretary and to the Chief Financial Officer for advice before any settlement is made.

22 Purchasing

22.1 After the award of the Contract / Framework to the successful providers the Contract / Framework agreement must be signed and returned to YPO immediately (subject to point 10.1).

22.2 Upon receipt of the above the Managing Director or his/her nominated officer must sign the framework agreement on behalf of YPO in accordance with the levels set out in appendix 1.

22.3 Contained within the framework agreement is the Call off Order Form. Before any procurement of the Goods, Services or Works can commence the call off order form must be filled in and issued to the supplier. This activates the Call off Terms and Conditions

22.4 If included within the Invitation to Tender documents the Supply Chain Agreement must be signed and returned to YPO.

22.5 Any variations to the framework agreement including any specification amendments must be discussed with the Contracts Team to ensure that the variation is not a material change to the contract scope.

22.6 Once agreed between the parties the variation form must be completed by either side and signed off by both YPO and the successful supplier. A variation to the framework must be assessed for risk and verified by the Contracts Team before YPO enter into negotiation to vary the framework agreement/ contract.

22.7 The Management Information must be provided to YPO by all successful suppliers as part of the framework agreement.

22.8 Signatures are required on the Retrospective Payment Certificate to be returned to YPO.

22.9 Orders, despatched electronically or on official stationery, should state the quantity (where applicable), an adequate description, the price or the basis of the price, an official purchase order number, delivery date and place and all other relevant conditions.

22.10 Verbal orders shall be kept to a minimum and shall be confirmed with an official order marked appropriately as soon as practicable, but in a period of no longer than two (2) working days.

22.11 Orders shall be individually identified, sequentially numbered, initiated and issued by the Managing Director or a member of staff specifically authorised for that purpose.

22.12 The authorisation of an order will indicate the following:-

- a) That the Goods or Services are necessary for the discharge of the policies and responsibilities of the Organisation.

- b) That where the Goods or Services are for direct use by the Organisation there is a provision for the cost within the estimates or it is covered by special financial provision.
- c) Compliance with the Organisation's Financial Procedure Rules and Standing Orders for Contracts.

23 Further Competition

- 23.1 All further competitions should be carried out via the ETS with all Users contacting the Contracts Team prior to commencing any further competition.
- 23.2 The Contracts Team will advise as to the appropriate process.

24. Post Contract Award

- 24.1 Following Contract award the Buyer/Category Manager will be responsible for monitoring delivery of the Framework / Contract including any and all reviews to take place between YPO and the contractor, supplier or service provider. All reviews should be carried out on a regular basis, documented and a copy of the Review undertaken retained for YPO's records.
- 24.2 If any problems are experienced and the contractor, supplier or service provider are failing to comply with the Framework / Contract terms and conditions then the following steps should be taken with the assistance of the Contracts Team:-
 - (a) Written records must be kept of all correspondence between both parties, the Buyer/Category Manager shall liaise with the contractor, supplier or service provider to ascertain the root cause of the problem.
 - (b) The contractor, supplier or service provider should be invited to attend a performance review. At the performance review a list of actions should be agreed between the parties to monitor the future provision of the goods/services. A copy of the minutes of this meeting should be agreed by both parties and a date set for a follow up meeting.
 - (c) If contract performance has failed to improve then the Buyer/Category Manager should seek advice from the Contracts Team who will provide advice as to the best remedy and action to be taken.
- 24.3 **UNDER NO CIRCUMSTANCES** should a Framework Agreement / Contract be terminated without advice from the Contracts Team and the Contracting Manager.

Section 2 Financial Procedure Rules

This section of the document has been replaced by separate Financial Procedure Rules

agreed by the YPO Board in January 2018.

YPO

These appendices set out the limits to be used in conjunction with the *Financial Procedure Rules and Standing Orders for Contracts*.

Standing Orders for Contracts

Section 21.2

| Delegated officer | Maximum limit for signing off a contract | Maximum limit for signing off a framework agreement |
|---------------------------------|---|--|
| Assistant Buyer | up to £0.5 million | |
| Buyer / category manager | up to £1 million | |
| Contracting Manager/SMT member* | up to £2 million | up to £10 million |
| Managing Director* | greater than £2 million | greater than £10 million |

*The authorities listed in this table should not be delegated below the specified levels.

Financial Procedure Rules

This section of the document has been replaced by separate Financial Procedure Rules agreed by the YPO Board in January 2018.

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~~Refer to Part 1 of Schedule 12A of the Land Information Management Act 1972.~~

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