

MANAGEMENT COMMITTEE – 29 JUNE 2022**2020/21 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT**
JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER**Purpose of Report**

1. This report sets out the 2020/21 financial statements (also referred to as the Statement of Accounts within a local government setting) and the 2020/21 Annual Governance Statement (AGS).
2. The Committee is asked to approve both documents.

Background

3. The ESPO constitution requires statutory statements of accounts ('financial statements') to be prepared for approval by Management Committee. These accounts are attached as Appendix 1. These are draft pending approval by the Committee.
4. The external audit and the audit opinion is considered elsewhere on the agenda.
5. Given the small size of both ESPO Trading Limited (ETL) and Eduzone, they don't require an external audit and their accounts were approved by their respective Boards of Directors in 2021.

Key Points

6. For 2020/21 the trading surplus previously reported to Management Committee (our 'Management Accounts') was a surplus of £4.6m. This was £1.2m less than 2019/20 and this reduction reflected the impact of the Covid-19 pandemic. As discussed in previous Management Committee meetings during 2021, this was a great result for ESPO and for our customers and suppliers, with ESPO remaining operational throughout the pandemic to support key educational and public sector services.
7. The Financial Statements show a net profit for 2020/21 of £4.0m (2019/20 = £4.0m). This is different to the Management Accounts due to pensions (which are only accounted for fully in the Financial Statements) and a number of other statutory adjustments.
8. A dividend of £3.3m was paid to members in December 2021 in respect of the 2020/21 surplus. The statutory adjustments, including the large movements in the pension scheme, do not impact the value of the dividend paid.

9. ESPOs financial position remains healthy, with net current assets of £17.9m at 31 March 2020. This allowed for the dividend in paragraph 8 to be paid, supports the build up of reserves for the planned investment in a new warehouse facility, and supports the working capital needs of the business.

Key Areas of Judgement

10. There are a number of areas of judgement in the Financial Statements, which require estimates to be made and/or assumptions used. These could have a very significant impact on the Financial Statements:
11. Value of pension deficit: The closing position as at 31st March 2021 was a net deficit of £26.7m (prior year £16.6m). This is shown as 'Post Employment Benefits' on the balance sheet on page 10 of the financial statements. Further details are provided in note 17 to the accounts and the valuation is based on a third party valuation by the actuaries Hymans Robertson. The change is significant and is due to changes in financial assumptions linked to the Covid Pandemic. The position has now returned to a pre-pandemic position (where at 31 March 2019 the deficit was £24.8m). This is being repaid over a number of years through our normal pension contributions.
12. Value of land and buildings: The Grove Park premises were valued at £15.6m (prior year £14.4m) in accordance with professional guidelines by chartered surveyors. The outstanding loan used to purchase the site now stands at £5.0m (prior year £5.5m).
13. Going Concern: A key assumption in preparing the financial statements is that ESPO will continue trading for the foreseeable future, considered to be at least 12 months from the date of signing the financial statements. The Director's report, considered elsewhere on the agenda, gives a current trading update, but trading in 2021/22 has been strong and we remain on target to deliver the Medium Term Financial Strategy (MTFS) giving comfort over the use of the going concern assumption.

Annual Governance Statement

14. Similar to the external audit, and unlike local authority members, ESPO is not required to publish an Annual Governance Statement(AGS). It is however a useful tool to review the effectiveness of our governance arrangements and to demonstrate good governance to our stakeholders.

15. The AGS was reviewed by a senior management group consisting of:

Leicestershire County Council (The Servicing Authority)

- Director of Law and Governance (on behalf of the ESPO Secretary)
- Assistant Director - Strategic Finance & Property (on behalf of the Consortium Treasurer)
- Head of Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Commercial Financial Controller

16. The 2020/21 Annual Governance Statement is included in Appendix 2.
17. During the review period of 2020/21 the only significant issue identified was the risk to the achievement of the budgeted surplus in the financial year 2020/21 as a result of the COVID-19 crisis. In 2020/21 ESPO did fall short of its budgeted surplus (due to Covid) but Management Committee will be aware that performance rebounded in 2021/22 with ESPO having a strong year.

Governance and Assurance

18. In reviewing the decision to approve the 2020/21 Financial Statements, Management Committee can gain assurance over the quality of the governance arrangements within ESPO from:
- a. The external auditors, through their audit opinion and audit findings report.
 - b. Internal audit, through previous updates to Management Committee and also inclusion in the AGS process.
 - c. ESPO Management, through previous updates to Management Committee and also inclusion in the AGS process.

Recommendation

19. The Committee is asked to:
- a. approve the 2020/21 financial statements
 - b. approve the 2020/21 annual governance statement.

Equal Opportunities Implications

20. None

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Appendices

- Appendix 1 – 2020/21 ESPO Financial Statements
Appendix 2 – 2020/21 Annual Governance Statement

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