

**MANAGEMENT COMMITTEE – 15 SEPTEMBER 2021****2019/20 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT**  
**JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER****Purpose of Report**

1. This report sets out the 2019/20 financial statements (also referred to as the Statement of Accounts) and the 2019/20 Annual Governance Statement.
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 and are marked 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 do not require an external audit and their accounts were approved by their respective Boards of Directors earlier in the year.

**Change in Accounting Rules Followed**

6. ESPO has historically used the Local Government CIPFA accounting rules to prepare its financial statements each year. However, as ESPO is a joint committee set up under Section 102 of the 1972 Local Government Act, it isn't required to use these rules.
7. Management Committee approved in November 2019 that from 2019/20 ESPO would adopt the accounting rules commonly used by private trading companies called 'FRS 102' (Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'). This was because the rules were thought to be more relevant to a trading organisation like ESPO, and whilst still being transparent the requirements are less onerous.
8. In finalising the figures for 2019/20, the final trading surplus (i.e. that normally reported to Management Committee) has increased from £5.478m to £5.758m, a £280k increase. Further statutory adjustments (largely related to pensions and approved spend from repairs and renewals reserves) are then made to get the final profit in the financial statements which is £3.965m.

**Key Areas of Judgement**

9. Value of pension deficit: The closing position as at 31st March 2020 was a net deficit of £16.6m (prior year £24.8m). 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 reversed for 31 March 2021 and returned to a deficit of £27.7m.
10. Value of land and buildings: The Grove Park premises were valued at £15.8m (prior year £13.3m) in accordance with professional guidelines by chartered surveyors. The outstanding loan used to purchase the site now stands at £5.5m (prior year £6.0m).
11. 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.

### **Key Points**

12. A statutory profit for the year of £4.0m (prior year £3.0m) has been made, reflecting a good trading performance in 2019/20. The Covid pandemic had a relatively small impact on 2019/20, arising at the end of the year.
13. A dividend of £4.0m was paid to members in November 2020 and this is based on the trading result previously declared to the Committee. The statutory adjustments, including the large movements in the pension scheme or property valuation, do not impact the value of the dividend paid.
14. ESPOs financial position remains healthy, with net current assets of £18.1m at 31 March 2019, which allowed for the dividend in paragraph 11 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.

### **Annual Governance Statement**

15. Similar to the external audit, and unlike local authority members, ESPO is not required to publish an Annual Governance Statement. It is however a useful tool to review the effectiveness of our governance arrangements.
16. Management Committee received the draft 2019/20 Annual Governance Statement in its meeting on 16 September 2020 and it was resolved:
  - a. That the draft Governance Statement was consistent with Members perspective on internal control within ESPO.

- b. Noted that final approval would be sought when the Statement of Accounts were presented at a future Management Committee meeting;
  - c. That the agreed Governance Statement be circulated to the Chief Executives of each of the Constituent Authorities.
17. The 2019/20 Annual Governance Statement is included in Appendix 2. There have been no changes since the draft approved by the Committee. During the review period 2019/20 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. The Committee will be familiar that financial performance and impact of Covid throughout 2020/21, and beyond, was discussed frequently during Committee meetings.

### **Recommendation**

18. The Committee is asked to approve the 2019/20 financial statements and the 2019/20 annual governance statement.

### **Equal Opportunities Implications**

19. None

### **Officer to Contact**

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### **Appendices**

Appendix 1 – 2019/20 ESPO Financial Statements

Appendix 2 – 2019/20 Annual Governance Statement

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