

**MANAGEMENT COMMITTEE – 15 NOVEMBER 2023****2022/23 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT****JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER****Purpose of Report**

1. This report sets out the 2022/23 financial statements (also referred to as the Statement of Accounts within a Local Government setting) and the 2022/23 Annual Governance Statement (AGS). These items were reviewed by the Finance and Audit Sub Committee at its meeting on 11 October 2023 and recommended for approval.
2. The Management Committee is asked to approve the Annual Governance Statement and the 2022/23 financial statements.
3. The Management Committee is also asked to approve the dividend pool of £4,369,269, for payment in December 2023.

**Background**

4. 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.
5. The results of the external audit were reviewed and approved by the Finance and Audit Sub Committee at its meeting on 11 October, with the auditor attending and presenting their findings directly to the Sub Committee. (Note – the auditor changed to TC Group this summer following their acquisition of the Midlands region of Fortus).
6. Given the small size of both ESPO Trading Limited (ETL) and Eduzone, they do not require an external audit. Their accounts are in the process of being prepared to coincide with the 31 December 2023 submission deadline and will be overseen by the ETL Board of Directors.

**Key Points**

7. The external audit resulted in a 'clean' audit opinion. The auditors did not identify any significant control weaknesses, nor did they identify any significant accounting differences (whether adjusted or unadjusted).

8. For 2022/23 the trading surplus previously reported to Management Committee (the 'Management Accounts') was a surplus of £5.9m. This was £0.3m higher than budget and £0.4m higher than 2021/22. As discussed in previous Management Committee meetings, this was a great result for ESPO.
9. The Financial Statements show a net profit for 2022/23 of £3.7m (2021/22 = £3.5m). This is different to the Management Accounts due to additional pension costs (which are only accounted for fully in the Financial Statements) and a number of other statutory adjustments.
10. A dividend of £4.4m is proposed. The statutory adjustments, including the large movements in the pension scheme, do not impact the value of the dividend paid.
11. ESPO's financial position remains healthy, with net current assets of £20.8m at 31 March 2023. This allows for the dividend mentioned in paragraph 9 to be paid, supports the build up of reserves for the planned investment in the warehouse, and supports the working capital needs of the business – both longer term and also for each seasonal summer peak.

#### **Key Areas of Judgement**

12. 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:
13. Value of pension: The closing position as at 31st March 2023 was an asset of £3k (prior year a deficit of £20.2m). This is shown as 'Post Employment Benefits' on the balance sheet on page 12 of the financial statements. Further details are provided in note 18 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 the latest triennial valuation and changes in financial assumptions linked to improving interest rates. All assumptions applied are consistent with Leicestershire County Council and the pension scheme is now 100% funded. Additional contributions will continue as per the central scheme's strategy to get to a 120% funding level.
14. Value of land and buildings: The Grove Park premises were valued at £18.2m (prior year £18.0m) in accordance with professional guidelines by chartered surveyors. The outstanding loan used to purchase the site now stands at £3.75m.
15. 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 latest financial performance, considered elsewhere on the agenda, gives a current trading update, but trading in 2023/24 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.

### **23/24 Dividend**

16. Each year ESPO pays a distribution back to members from the surplus it has generated. This provides a valuable contribution towards public services, in addition to the day to day value for money and compliance that ESPO affords its customers.
17. The Management Committee agreed in 2015 a method for calculating the dividend, which considers ESPOs overall surplus and the member usage of ESPO. As part of this ESPO retains 20% of the surplus to support the future growth and maintenance of the business. In addition, like previous years, ESPO also wishes to retain an additional £400k to build its property maintenance reserve to ensure sufficient funding is retained for future maintenance and capital requirements.
18. Applying the above model yields a dividend pool for members of £4,369,269 and, if approved, ESPO expects to make payment of individual member amounts in December 2023.

### **Annual Governance Statement**

19. 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 ESPO's governance arrangements and to demonstrate good governance to its stakeholders.
20. The AGS was reviewed by a senior management group consisting of:
  - Leicestershire County Council (The Servicing Authority)
    - Director of Law and Governance (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

21. The 2022/23 Annual Governance Statement is included in Appendix 2.

22. No areas of significant concern are identified in the AGS.

### **Governance and Assurance**

23. In reviewing the decision to approve the 2022/23 Financial Statements, the 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 the Finance and Audit Sub 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**

24. The Management Committee is asked to approve:

- (a) the 2022/23 Annual Governance Statement;
- (b) the 2022/23 financial statements;
- (c) the dividend pool of £4,369,269 to be paid out in December 2023.

### **Equal Opportunities Implications**

25. None.

### **Officer to Contact**

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### **Appendices**

Appendix 1 – 2022/23 ESPO Financial Statements

Appendix 2 – 2022/23 Annual Governance Statement