



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 20 NOVEMBER 2012

AGENDA ITEM NO. 7

CASH FLOW MONITORING

REPORT OF THE DIRECTOR

Purpose of Report

1. To provide the Finance and Audit Subcommittee with a summary of the information available to the management team of ESPO to monitor cash flow and to anticipate demand fluctuations and ESPO's approach to managing these fluctuations.

Background

2. At the last Management Committee meeting (and previous meetings of the Subcommittee) members commented that it would be useful for the Finance and Audit Subcommittee to receive further information on the monitoring of cash flow in order to manage significant fluctuations in demand at different times of year.

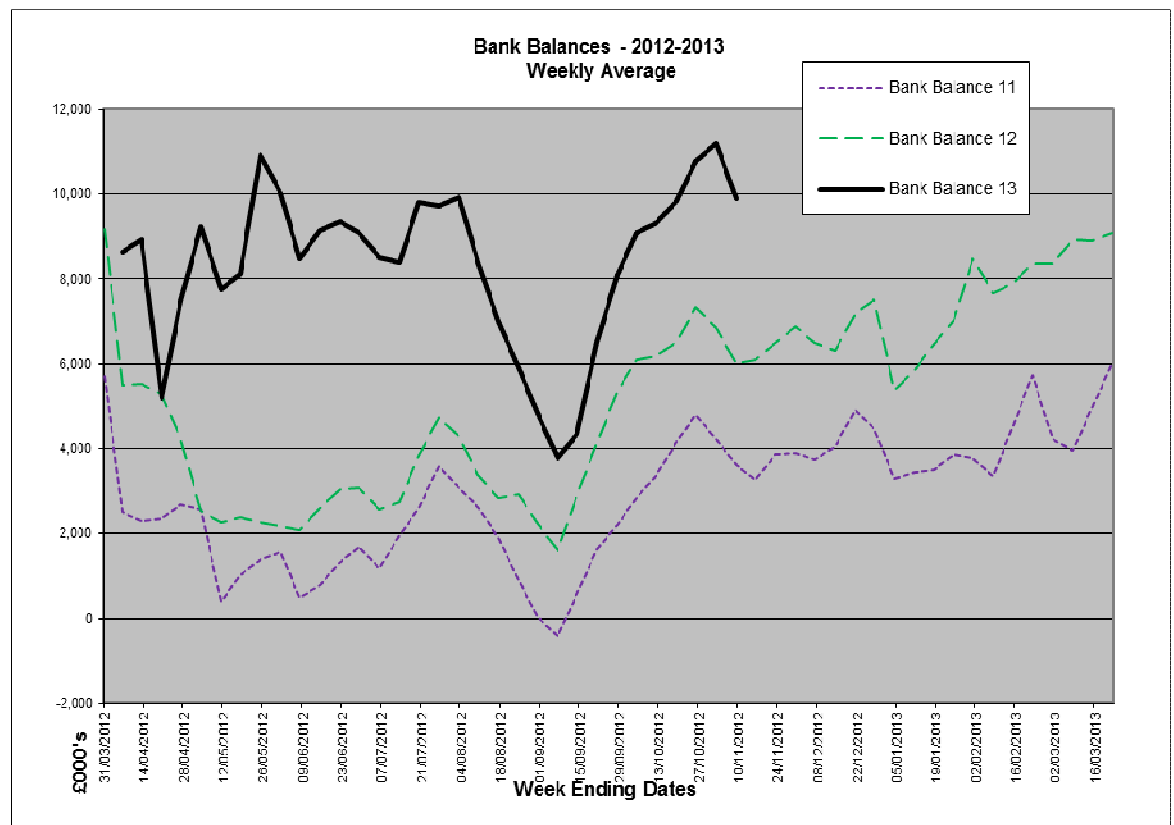
Cash Strategy

3. The cash strategy in simple terms is to maximise ESPO's cash balance at all times subject to paying our suppliers and stakeholders according to their terms and conditions, ensuring our debtor balances are properly managed and any queries are dealt with promptly and efficiently, our investments are properly evaluated and the surplus that is earned is thus turned in to free cash as promptly as possible.
4. As part of the services provided by Leicestershire County Council ESPO works with their treasury department to invest surplus cash on a daily basis. The cash is invested in an account with a high street bank in a SIBA account at a rate of interest of 1% per annum. This account was first opened in May 2012. Previous to this the rate of interest earned on surplus cash was 0.25%. The interest is credited to the ESPO bank account quarterly. The organisation has no assets or liabilities denominated in foreign exchange and no overseas cash investments. The cost to ESPO of this service from Leicestershire County Council was included in the £15k charged for financial services in 2011/12.

Cash Reporting

5. The cash balances are monitored each day by Technical Accountants within the finance function of ESPO and each week a cash report is produced showing the actual balances, a comparison to the previous week forecast and a forecast for the week ahead. A copy of the latest report is reproduced below:

OCTOBER 2012 - BANK MOVEMENTS BY WEEK							£000's			
							ACTUAL	LAST YEAR	This Yr to last Yr	
STATEMENT RECEIPTS	Wk27	Wk28	Wk29	Wk30	Wk31 F'cast	Wk31	MONTH TO DATE	MONTH TO DATE	% Diff	
Sales Ledger	2,414	2,281	3,182	2,167	1,600	2,464	12,508	8,786	42%	
Interest	-	-	-	-	-	-	-	1	0%	
Other	23	-	-	-	-	-	23	-	#DIV/0!	
TOTAL	2,437	2,281	3,182	2,167	1,600	2,464	12,531	8,787	43%	
STATEMENT PAYMENTS	Wk27	Wk28	Wk29	Wk30	Wk31 F'cast	Wk31	MONTH TO DATE	MONTH TO DATE	% Diff	
Purchase Ledger	1,463	1,852	1,193	1,700	1,193	1,181	7,389	5,619	32%	
Energy Costs	621	209	463	224	34	34	1,551	1,372	13%	
VAT/CCL	-	-	-	-	66	66	66	58	14%	
Payroll	-	-	264	-	478	455	719	698	3%	
Other	-	-	9	-	195	195	204	1	20300%	
TOTAL	2,084	2,061	1,929	1,924	1,966	1,931	9,929	7,748	28%	
NET MOVEMENTS	353	220	1,253	243	(366)	533	2,602	1,039	150%	
<i>Short term (Borrowings)/Invest</i>	8,777	9,157	10,303	10,663	10,083	11,447				
<i>Current account balance</i>	502	341	449	332	540	80				
ESPO Cash	9,279	9,498	10,752	10,995	10,623	11,527				



The graph is used to plot not only the current year's bank balances but also plots the performance in the prior two year's. This is then used to anticipate key fluctuations in our bank balance along with specific current knowledge of events.

6. The key challenge in terms of cash balance is the summer holiday when schools are closed. Historically this has resulted in ESPO falling in to an overdraft position. This has been mitigated in recent years through a number of measures to ensure this is not repeated. At the end of the summer holiday the accounts receivable finance team is structured and managed to ensure the cash due from July deliveries (a peak month) is collected and allocated promptly and efficiently.
7. As part of the weekly financial reporting for ESPO a written report is produced highlighting specific large payments that are due in the near future and when they are likely to be paid. In addition this report specifically identifies amounts due to other members of Pro5 as part of the Phonics initiative that form part of our cash balance. This includes information on whether these amounts have been invoiced or not.
8. Other measures to ensure prompt collection of cash include use of Direct Debits to collect cash from energy customers. At present 80% of our customers pay in this manner. This is being rolled out to the stores customer base.

9. At present due to the comparatively high cash balance we are maximising the use of supplier discounts for early payment that are available to us. Last year this generated over £80k of savings and this year we are targeting to increase that to over £120k.

Resources Implications

10. None

Recommendation

11. Members are asked to note ESPO's approach to cash flow strategy and reporting.

Equal Opportunities Implications

12. None

Background Papers

13. None

Officer to Contact

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