ESPO EASTERN SHIRES PURCHASING ORGANISATION
A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM
CONSORTIUM SECRETARY: JOHN SINNOTT, MA, Dipl. P.A.,
CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date:	26 November 2015
My Ref	BH/ESPO
Please ask for:	Ben Holihead
Direct Dialling	(0116) 305 6339
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To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held at on Friday, 4 December 2015 at 10.30 am in the Framland Committee Room, County Hall, Glenfield. Leicestershire.

A buffet lunch will be provided after the meeting. Please telephone or email me (details above) to confirm that you require lunch and, if so, whether you have any special dietary requirements.

Yours faithfully,

B. Holihead

Ben Holihead
for Consortium Secretary

AGENDA

Item		Pages
1.	Minutes of the meeting held on 28 September 2015.	(Pages 3 - 8)
2.	To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.	
3.	Declarations of interests in respect of items on this agenda.	
4.	Items referred by the Finance and Audit Subcommittee.	

There are no specific items referred. The issues considered by the Subcommittee are covered in items 7-10 and 14, which appear elsewhere on the agenda.

5. Resolution of Internal Audit High Importance Recommendations. (Pages 9 - 10)

   Report of the Consortium Treasurer.

6. Director's Progress update. (Pages 11 - 18)

   Report of the Director.

7. MTFS Monitoring for the first Six Months of 2015/16. (Pages 19 - 32)

   Joint Report of the Director and Consortium Treasurer.

8. Proposal to change the basis of calculating the Dividend Distribution. (Pages 33 - 38)

   Joint report of the Director and Consortium Treasurer.

9. Impact of the National Living Wage. (Pages 39 - 42)

   Joint report of the Director and Consortium Treasurer.

10. Review of the Frequency of Finance and Audit Subcommittee meetings. (Pages 43 - 46)

    Report of the Consortium Secretary.

11. Date of Next Meeting.

    The next meeting of the Committee is scheduled to take place on Wednesday 2 March at 11.00am at County Hall, Glenfield.

12. Any other items which the Chairman has decided to take as urgent.

The public are likely to be excluded from the meeting during the consideration of the following item of business in accordance with the provisions of Section 100(A) (4) of the Local Government Act 1972.

13. Supplementary Information informing the Director's Progress Update. (Pages 47 - 54)

    Report of the Director.

    (Exempt under paragraphs 3 and 10 of Section 100(A)).

14. Strategic Discussion Document to Inform MTFS Assumptions. (Pages 55 - 66)

    Joint Report of the Director and Consortium Treasurer.

    (Exempt under paragraphs 3 and 10 of Section 100(A)).

Agenda Item 1

ESPO

Minutes of a meeting of the ESPO Management Committee held at ESPO, Grove Park on Monday, 28 September 2015.

PRESENT

Mr. J. Clarke CC – Warwickshire County Council (in the Chair)

Cambridgeshire County Council
Mr. R. Hickford CC

Leicestershire County Council
Dr. R. K. A. Feltham CC
Mr. G. Hart CC

Lincolnshire County Council
Mr. R. Foulkes CC
Mrs. S. Rawlins CC

Norfolk County Council
Mr. I. Monson CC

Peterborough City Council
Mr. D. Seaton CC

24. Minutes of the previous meeting.

The minutes of the meeting held on Wednesday 24 June 2015 were taken as read, confirmed, and signed.

25. Urgent items.

There were no urgent items for consideration.

26. Declarations of interests.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

27. Items referred by the Finance and Audit Subcommittee.

There were no items referred by the Finance and Audit Subcommittee. The Committee was advised that the Subcommittee had considered the Statement of Accounts and Annual Governance Statement 2014/15 (minute 34 refers) and had recommended that these be approved by the Management Committee. The Subcommittee also considered the MTFS Monitoring for the First Four Months of 2015/16 (minute 35 refers) and were satisfied with the results of the first four months of trading for 2015/16.

Members of the Subcommittee felt that due to the improved organisational position ESPO now found itself in, the Subcommittee may no longer need to meet four times per year. A report would be brought to a future meeting of the Committee which would review the frequency of Subcommittee meetings.

28. 2015 Peak Review.

The Committee received a presentation from officers outlining the performance of ESPO during the 2015 peak trading period following changes made throughout 2014/15 to mitigate the issues previously experienced by ESPO during the period. A copy of the presentation is filed with these minutes.

Arising from discussion the following points were raised:-

(i). The peak trading period for ESPO was usually June and July coinciding with the start of the school holidays. During this period there was an increase of 100% on order lines, and the whole period accounted for approximately 30% of ESPO's annual sales. Due to the subsequent pressure placed on ESPO during this period, it traditionally meant that deliveries would be significantly delayed;

(ii). As had been discussed at previous meetings of the Committee, ESPO had decided to use a seasonal relief warehouse to mitigate the pressure experienced during the peak period. The use of this warehouse had proven a significant success, and 2015 was the first time that all deliveries had been made on time after the peak period. This also had a positive impact on staff morale, customer service and store sales;

(iii). ESPO had also undertaken other measures to increase performance during the peak period, such as revising the layout of the warehouse and monitoring staff performance in order to improve productivity in the warehouse;

(iv). Measures had been taken to change customer behaviour during the peak period by offering discounts for schools to take deliveries in August and therefore spread demand, and by encouraging customers to order in bulk where possible. Arising from queries from members, the Committee was informed that approximately a quarter of orders were for £20 or less which had lower margins than larger orders;

(v). It was hoped that in the future customers would be able to track the status of their orders online, which would be particularly beneficial for those making direct orders to suppliers;

(vi). Whilst the number of customers making orders online was expected to hit the 20% target, officers were ambitious to increase this target further. However this would require significant behaviour change from customers;

(vii). Although the usage of agency staff had been lower this year, due to ongoing sickness in the warehouse it had been necessary to continue using agencies. Members were advised that the use of agencies brought advantages such as the flexibility to hire at short notice. The agency used by ESPO would, where possible, source staff who had previously undertaken work at ESPO;

(viii). At present the warehouse operated on a five day, 24 hour basis. It was clarified that ESPO would not be able to move to a six or seven day working pattern due to the restrictions by the Servicing Authority's HR policy on pay for weekend working.

RESOLVED:

That the contents of the presentation be noted.

29. External audit of the 2014/15 Financial Statements.

The Committee considered a joint report of the Director and Consortium Secretary which reported on the external auditor's key findings from the 2014/15 financial statements and presented a letter of representation from the Consortium Treasurer to the auditors. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

The Chairman welcomed Richard Bacon and Stephen Hallam from PricewaterhouseCoopers (PwC), ESPO's external auditors, to the meeting who communicated the results of their audit.

Arising from discussion, the following principal points were noted:-

(i). PwC reported a positive audit for 2014/15 and expected that an unqualified audit opinion would be issued. The 'green' rating for all areas covered during the audit was an exceptional achievement for ESPO. PwC reported that this was achieved by the consistency in the finance team and the methodology in accounting;

(ii). The external auditors had identified three non-material accounting issues to assist ESPO in fulfilling its governance responsibilities. Arising from an issue around rebate income, officers had amended the accounting policy to ensure that there was adequate disclosure of its accounting policy for rebate income;

(iii). The completion of the audit would be subject to the approval of the final version of the Statement of Accounts. The external auditors were pleased to report the accounts were produced on time and commended ESPO's accounting performance.

RESOLVED:

That the external audit of the financial statements 2014/15 be approved.

30. Director's Progress update.

The Committee considered a report of the Director which provided an update of the actions and progress made since the previous Committee meeting held on 24 June 2015. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

Arising from discussion the following points were raised:-

(i). The first two phases of the Change Programme had been a success particularly the alterations made in the warehouse which had contributed to the successful handling of the peak period (minute 28 refers). Members were advised that although these changes and measures had been a success, it was hoped that some measures such as the use of the relief warehouse would not be required in the following years due to other measures taken such as the alterations to the warehouse layout;

(ii). Officers would be commencing with phase three of the Change Programme which included building refurbishment, improving customer experience, supply chain management and software upgrades;

(iii). Measures had been taken to reduce sickness absences. Although the current figure was 12.71 days per FTE, a number of staff on long-term sickness leave had either returned to or left ESPO which would take time to feed back into the sickness absence figures. An interim target of nine days per FTE by March 2016 had been set with the intention of achieving a target of 7.5 days per FTE by 2016/17;

(iv). The national living wage announced in the summer budget would be a challenge for ESPO due to the immediate material loss in paying staff more, the subsequent reconfiguration of pay grades, and the potential for suppliers to offset their increased costs on customers. Further investigation into the impact of the living wage would be undertaken by officers, the results of which would be presented to a future meeting of the Committee;

(v). A shortage of HGV drivers had presented a challenge to ESPO. There were a variety of factors contributing to this such as competition from businesses who were able to pay drivers more, and the need for qualifications to become a HGV driver. However many drivers at ESPO found that the working hours were much better than in other businesses, and that officers would try to mitigate the shortage by potentially offering apprenticeships and making greater use of couriers;

(vi). Officers were investigating the possible impact and opportunities arising from devolution. A report on this would be brought to a future officer group meeting.

RESOLVED:

That the contents of the report be noted.

31. Change to the order of business.

RESOLVED:

The Chairman sought and obtained the consent of the Committee to vary the order of business to that set out on the agenda.

32. Exclusion of the public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled ‘Supplementary Information informing the Director’s Progress update’ as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.’

33. Supplementary Information Informing the Director's Progress Update.

The Management Committee received an exempt report from the Director which set out further supplementary information regarding the Director’s Progress Update. A copy of the exempt report, marked ‘Agenda Item 12’, is filed with these minutes.

The exempt report was not for publication as it contained information relating to the financial or business affairs of a particular person (including the authority holding that information).

RESOLVED:

a) That the supplementary information informing the Director's Progress Update be noted;

b) That the proposal to upgrade the software currently used by ESPO be approved.

(THE MEETING RESUMED IN OPEN SESSION)

34. Statement of Accounts and the Annual Governance Statement for 2014/15.

The Committee considered a joint report of the Director and Consortium Treasurer which reported on the 2014/15 Accounts and Annual Governance statement. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

As had been discussed at a previous meeting of the Committee, it was concluded that it would not be financially beneficial to pay off any loans or debt early due to the penalties incurred by doing so.

RESOLVED:

That the Statement of Accounts and Annual Governance Statement for 2014/15 be approved.

35. MTFS Monitoring for the First Four Months of 2015/16.

The Committee considered a joint report of the Director and Consortium Treasurer monitoring the Medium Term Financial Strategy against the first four months of trading in the 2015/16 financial year. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

The first four months of trading had been a success for ESPO, and had been a significant improvement from the same period in the 2013/14 financial year due to the successful handling of the peak period. Store sales were behind budget for 2015/16 but were significantly ahead of the previous year.

Key expenditure had been in decline. Whilst ESPO had experienced increased agency costs, this had been offset by lower staff costs. Overall the surplus to date was £1,385,000, which was £189,000 ahead of budget and a substantial increase from the previous year.

As agreed at the previous meeting of the Management Committee, the dividend of £1.5m will be paid to members in December.

RESOLVED:

That the contents of the report be noted.

36. Dates of future meetings.

It was noted that the future meetings of the Committee would be held on:-

- Friday 4 December 2015 – 10.30am at County Hall, Glenfield.
- Wednesday 2 March 2016 – 11.00am at County Hall, Glenfield.
- Wednesday 29 June 2016 – 11.00am at County Hall, Glenfield.
- Wednesday 28 September 2016 – 11.00am at ESPO, Grove Park.
- Wednesday 30 November 2016 – 11.00am at County Hall, Glenfield.

10.57 am - 12.50 pm CHAIRMAN
28 September 2015

ESPO MANAGEMENT COMMITTEE – 4 DECEMBER 2015

THE RESOLUTION OF INTERNAL AUDIT HIGH IMPORTANCE RECOMMENDATIONS

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To inform the Management Committee that internal audit high importance recommendations have been resolved.

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs. Leicestershire County Council's Internal Audit Service (LCCIAS) provides the internal audit function for ESPO.

3. The Constitution of ESPO specifies that one of the general functions of the Management Committee shall be agreeing the resolution of high importance audit recommendations (2.1.3 (e)).

4. A high importance (HI) recommendation denotes that there is either an absence of control or evidence that a designated control is not being operated and as such the system is open to material risk exposure. It is particularly important that management quickly addresses those recommendations denoted as HI and implements an agreed action plan without delay.

High importance recommendations

5. Following an audit of the project management arrangements for the replacement energy management system, the Finance and Audit Subcommittee was informed at its meeting on 17 November 2014 that high importance recommendations had been made to manage the known risks of data migration, system testing and interfaces to financial systems. The Subcommittee was assured that changes were being done slowly in order to identify any errors in data transfer and ensure the transfers were done effectively.

6. Follow up internal audit work was undertaken, and at its meeting on 16 November 2015 the Subcommittee was informed that the high importance recommendations are being managed sufficiently in order to close them off.

Resources Implications

7. The budget for the provision of the internal audit service is contained within ESPO' Medium Term Financial Strategy under charges by the Servicing Authority.

Recommendation

11. That the Committee notes the resolution of the high importance recommendations in the replacement energy system.

Equal Opportunities Implications

12. There are no specific equal opportunities implications contained within the annual summary of work undertaken.

Background Papers

Report to ESPO Finance and Audit Subcommittee 9 June 2015 – Annual Internal Audit Plan
http://ow.ly/RlhBs

Officer to Contact

Neil Jones	Telephone	0116 305 7629
Head of Internal Audit Service	Email	Neil.Jones@leics.gov.uk

Appendices

None.

ESPO MANAGEMENT COMMITTEE – 4 DECEMBER 2015

DIRECTOR'S PROGRESS UPDATE

Purpose of Update

1. The purpose of this update is to inform members of the actions and progress made since the last Management Committee meeting held on 28 September 2015.

Overall Financial Performance

2. Overall financial performance for the six months to September 2015 can be summarised as:

   - Total sales to September are £45.3m against a challenging budget of £45.4m. This represents a slight increase on prior year.
   - Our stores' margin improved in September to over 36% which is down to mix and a lack of discounting, following the activity targeted at re-phasing sales in the summer.
   - Rebate income is £2.08m compared to budget of £1.70m and is tracking ahead of the prior year for the year to date to September.
   - Overall costs as percentage of sales have fallen to 19.3% from 19.5% last year and 19.8% in the budget. This is down to overheads being £159k better than budget and £110k better than last year. Agency costs were also £100k better than last year.
   - Overall surplus for the six months is £1.52m compared to a budget of £1.41m.

3. Key figures underlying the total sales to 30 September 2015 are as follows:

		YEAR TO DATE		
		ACTUAL £m	BUDGET £m	PRIOR YEAR £m
SALES				
	STORES	24.08	25.20	24.11
	DIRECT	9.87	9.91	10.24
	GAS	8.49	7.77	8.41
	CATALOGUE ADVERTISING	0.80	0.78	0.74
	REBATE INCOME	2.08	1.70	1.80
	MISCELLANEOUS INCOME	0.03	0.08	0.03
TOTAL SALES		45.35	45.44	45.33

External Activities and Developments

PBO and beyond

4. On 9 October, the PBO Forum convened to discuss the impact of the election on government procurement strategy and the role of PBOs in the LGA National Procurement. This was attended by The Central Buying Consortium (CBC), Crown Commercial Services (CCS), North East Purchasing Organisation (NEPO), and the Yorkshire Purchasing Organisation (YPO).

5. The British Educational Suppliers Association (BESA) is the recognised trade body for educational supplies in the UK and is highly respected within Government, the supply chain and customer base. On behalf of ESPO, I have sought to be part of the BESA Executive Council and am pleased to confirm success in securing this with effect from 11 November and running for a period of two years. At a time of significant change in this marketplace, election to the council quite rightly gives ESPO a voice in this forum.

6. On 15 October, I attended the BESA New Schools Network Conference bringing together the Free Schools Agency and the New Schools Network for a briefing on the Government’s flagship education policy, including the Free Schools' Programme and the latest ambition for the academies programme.

7. On 21 October, I gave a presentation at the BESA Launchpad/SME Conference. The purpose of the presentation was to help smaller suppliers and SMEs understand how they can engage with organisations like ESPO to supply into our customer base through our catalogue and framework solutions.

8. Every year, ESPO nominates a number of charities to which it provides some match funding. This year, ESPO employees have run charitable events to support the following causes:

- 28 Leicestershire Scout Group
- Alzheimer's Society
- Bodie Hodges Foundation
- Macmillan Cancer Research
- Children in Need
- East Midlands Air Ambulance
- Think Pink – Breast Cancer Awareness

9. Further to this, I have had conversations with EducAid, a charity supporting education in Sierra Leone (the Ebola struck region of Africa). The crux of the charity's intent is to invest in the country's education, to raise the standards which historically have been very low. There is an opportunity for ESPO to support this charity with outdated stock which would otherwise find its way into the grey market. ESPO is only responsible for shipment to London where the charity has organised a container to be shipped over to Africa.

ESPO Internal Developments

Staffing

10. Our HR Strategic Business Partner and HR Advisor continue to work closely with ESPO's managers to improve attendance numbers.

11. In July 2015, the cumulative figure was 12.71. As at 30 September this has now been reduced to 12.03. We have set an interim target of nine days per FTE by the end of March 2016 with a view to achieving the overall target of 7.5 days per FTE during 2016/17.

	1/7/2014 – 30/6/2015	**1/8/2014 – 31/7/2015**	**1/10/2014 – 30/09/2015**
Days lost per FTE	12.25 days	12.71 days	12.03 days
Percentage of days lost due to sickness	4.9%	5%	4.77%

12. An Attendance Management training course has been designed specifically for ESPO which will be delivered in December 2015 and January 2016. This will be mandatory training for all line managers.

13. By implementing a systematic process for reporting and monitoring sickness, we anticipate bringing this down from twelve days to 7.5 days per employee by 2016/17. This is supported by a series of panels and consequent actions that are already having an impact.

14. A separate report is presented elsewhere on the agenda to review the impact of the Living Wage.

All Staff Briefing

15. On 2 October, we held an All Staff Briefing where we acknowledged a successful year, set out our ambitions for our four-year MTFS, and invited in training for our staff around taking a positive and proactive approach to work – a key ingredient as a first step to achieving our growth ambitions. This is in addition to regular monthly updates and weekly staff communications.

Supply Chain Management

16. The summer peak trading activity was the best since ESPO was formed in 1981; the effective processing, picking, packing and delivery of customer orders carried right through the peak and continued during the mini back to school peak experienced in September. Our on-time in-full and product availability measures were consistently on target and maintained right through September.

17. The Supply Chain Panel has contributed to improvements in our supplier performance and therefore our order fulfilment process.

18. The Service Level Agreement (SLA) has now been updated and improved following feedback and monitoring of the previous SLA. It is now part of the Invitation to Tender documentation and thus embedded in our Catalogue Product Procurement processes. Thirty-eight key suppliers are now under an SLA, comprising 45% of all catalogue sales.

19. The Leadership Team are engaged with the top 25 catalogue suppliers, building relationships as an important aspect of supply chain management principles, encouraging two-way open dialogue and discussions. This will be further supported by the recruitment of a Supply Chain Analyst.

Rebates

20. The pilot to maintain and increase rebate income has begun with Coventry City Council and a first phase of data gathering and exchange has been completed. A baseline spend of £11.54m has been identified, with a further £8.84m in the pipeline.

21. A number of potential discrepancies between customer and supplier spend data are being investigated, although it is recognised that at least a proportion of this is spend with framework suppliers that was not identified as being against the framework at the time of call-off. These discrepancies are being investigated further as a potential ‘rebate recovery’ exercise.

22. Future growth potential has been identified and a proposal is being developed to incentivise the client, based on growth in total turnover.

23. Coventry City Council feedback on the exercise has been positive, with two new frameworks identified for which they have indicated their intent to use the ESPO solutions, and a number of others which will be reviewed against their current arrangements.

Sales & Marketing

Campaigns, activities and newsletters

24. We continue to build on the successful launch of our Hidden Gems campaign, with further promotion of our 'Introduction to Frameworks' video and features across our print and digital publications. Account managers have also been given additional framework resources and a spinning wheel display to drive engagement at our forthcoming NASBM conference and Academies Show exhibitions. This concerted promotion has contributed to a large increase in framework page visits, more than doubling in the past twelve months.

25. Our annual ESPO calendar is currently in production for December delivery. Planning is also underway for two sales promotions in the new year and the marketing of the 2016/17 ESPO catalogue.

26. Our new 2015 edition of the framework directory has recently been distributed to customers. This features our 150+ framework solutions available for use nationwide with signposting to our espo.org website for further information and access to user guides. It also features information about our specialist procurement service offered by the procurement teams to support customers' individual and bespoke procurement requirements.

27. Corporate customers have received the latest edition of our newsletter 'Corporate Update' and digital publication 'Corporate Bulletin'.

28. Our teams have attended shows and events across the country including the Cambridgeshire teachers' conference, Peterborough 'Meet the Buyer' event and the Nottingham Association of School Business Managers (NASBM) conference. Each of these events gave our account managers and framework teams the opportunity to engage directly with our existing and potential customers.

Customer service

29. Operations assumed responsibility for the Customer Services and Directs team as part of the recent reorganisation. The Head of Sales & Customer Service continues to manage this team reporting into the Assistant Director, Operations.

30. Customers continue to enjoy the benefits introduced through the change programme with satisfaction levels monitored through Feefo continuing at 98%. There has been a noticeable improvement in Customer Service through a better working environment and a general increase in staff morale.

31. The improvement in service levels resulted in 6,000 fewer phone calls being received this year during the peak period which enabled staff to manage order input more efficiently and ensure all orders were entered on the day received. Order acknowledgement has played a key role in improving customer experience with positive feedback from many customers.

32. ESPO has worked together with Lincolnshire County Council to help resolve the issues around duplicate and lost orders following the implementation of Agresso. Whilst we have been able to minimise orders being duplicated and identified orders that had not been released through Agresso, year-on-year trade has reduced as school customers continue to find transacting with ESPO difficult down to new procedures now in place. We are working with Lincolnshire to resolve this situation.

33. A trial to "punchout" to the ESPO catalogue is currently underway with five schools which will be rolled out across the county when any issues have been resolved.

ESPO Risk and Governance Update

Audit Reports

34. In the last quarter, audit reports have been issued for Information Management, Applications Management and Rebates Income. They all received substantial assurance. There were no hi recommendations.

Health & Safety

35. In the second quarter, there were a total of 23 reported incidents. This included 14 injuries, five property damages and four near misses.

36. The injuries included bruises, bumps, strains and cuts; this has been minimised by the removal of personal cutting tools in the warehouse.

The property damage was all related to a single agency forklift driver who no longer works with ESPO.

The near misses related to pallets that are pushed through the racking, a typical experience in running a warehouse.

37. Manual handling and repetitive strain assessments are being rolled out to appropriate groups in the warehouse. Risk assessments are also being conducted end to end for drivers.

Corporate Risk Register

38. In September, ESPO's Leadership Team held its quarterly review of Major Risk Records (MRRs).

39. MRRs are being written up to address newly identified risks as follows:

- Impact of the implementation of the Living Wage
- Business lost to private companies

40. There are four high risks which are reviewed monthly. These relate to attracting and retaining quality staff; potential governance failures by management; robust business continuity in the event of an emergency; and

the impact of the Comprehensive Spending Review on local authorities and lack of growth in this sector.

Resources Implications

41. None arising directly from this report.

Recommendation

42. Officers are asked to note the contents of the report.

Officer to Contact

John Doherty, Director
J.Doherty@espo.org, 0116 265 7931

Appendices

None.

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Agenda Item 7

ESPO

ESPO MANAGEMENT COMMITTEE – 4 DECEMBER 2015

MTFS MONITORING FOR THE FIRST 6 MONTHS OF 2015-16

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the results for the first six months of trading April to September 2015 as per the management accounts with explanations for the more significant variances to budget.

Background

2. The Management Committee is updated quarterly on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy. This has also been considered by the Finance and Audit Subcommittee at its meeting in November.

Financial Performance for the first 6 Months of 2015-16 compared to the MTFS.

Sales

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	24,080.2		25,203.8		24,112.2	
DIRECT	9,870.6		9,913.1		10,235.5	
GAS	8,489.8		7,771.0		8,408.5	
CATALOGUE ADVERTISING	797.6		780.0		736.2	
REBATE INCOME	2,076.8		1,703.5		1,800.3	
MISCELLANEOUS INCOME	32.3		75.0		31.0	
TOTAL SALES	45,347.3		45,446.3		45,323.7	

3. Total sales at £45.3m are just behind of budget of £45.4m principally down to lower store sales which are showing a negative variance of £1.1m due to lower non education sales. This has been offset by higher gas and rebates income. A detailed analysis of education and non-education sales by area has been circulated to members separately.

4. As highlighted in the September report to the sub-committee the positive variance to last year for store sales was down to timing of the delivery of the peak sales period. Essentially peak was delivered earlier this year and that effect has now essentially spun out. Store sales are now fractionally behind last year principally due to lower non education spending. Lead indicators suggest that this will continue for the next few months but plans are in place to address this in the final quarter of the year.

5. Direct sales are in line with budget helped by a large MOD order for white goods. Compared to the prior year there is no £0.3m adverse variance as there was the one off impact of the free school meals initiative last year.

6. Rebates are £0.3m ahead of budget and £0.2m ahead the prior year. The key framework contracts such as MSTAR continue to perform strongly. The key objective remains that rebates are at least in line with the prior year.

7. Catalogue advertising is in line with budget and ahead of the prior year.

Margin

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
STORES	6,003.1	33.2%	6,565.8	35.2%	5,995.4	33.1%
DIRECT	1,206.8	13.9%	1,140.4	13.0%	1,192.9	13.2%
GAS	159.7	1.9%	146.2	1.9%	98.1	1.2%
CATALOGUE ADVERTISING	797.6		780.0		736.2	
REBATE INCOME	2,076.8		1,703.5		1,800.3	
MISCELLANEOUS INCOME	32.3		75.0		31.0	
TOTAL MARGIN	**10,276.4**		**10,410.9**		**9,854.0**	

8. Overall margin is £0.1m behind budget due to higher discounting over the peak period in store sales as part of the school holiday offer and lower sales. This has been offset by higher rebates and higher percentage margin on directs.

9. The impact of the additional gas sales is the increased margin of £14k.

Expenditure

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EXPENDITURE						
EMPLOYEES						
Staff	4,954.6		5,350.4		4,906.7	
Agency/Contract	682.1		514.2		783.5	
Total	**5,636.7**		**5,864.5**		**5,690.2**	
OVERHEAD EXPENSES						
Transport	1,041.2		962.4		1,084.9	
Warehouse	888.8		936.2		909.3	
Commercial	735.8		765.3		697.6	
	2,665.9		**2,664.0**		**2,691.8**	
Finance and IT	408.2		452.7		415.0	
Directorate	36.2		18.1		60.3	
	444.4		**470.9**		**475.3**	
Total	**3,110.3**		**3,134.8**		**3,167.1**	
TOTAL EXPENDITURE	**8,747.0**	**19.3%**	**8,999.3**	**19.8%**	**8,857.3**	**19.5%**

10. Total expenditure is £0.3 under budget principally driven by higher agency costs offset by lower staff costs. The lower staff costs are principally down to reduced FTE's and managing our vacancy rates.

11. Our overheads as a percentage of sales ratio is 19.3% which is 0.5% better than budget and 0.2% ahead of last year.

12. Agency costs are closely managed but are impacted by vacancies and sickness levels.

FTE numbers as at Sept 2015 are as follows

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
EMPLOYEES NUMBERS (Full-time equivalents):			
Operations	187	192	198
Commercial	106	124	109
Finance, IT and Directorate	42	45	41
TOTAL EMPLOYEES	**336**	**362**	**348**

13. The HR Strategic Business Partner and HR Advisor have been working closely with ESPO's managers to improve attendance numbers. At the start of April, there were twelve employees on long-term absence with several more added to that in subsequent months. Since April however, nine have returned to work, one has resigned and two have taken ill health retirement. There are currently only five members of staff on long-term absence. Whilst this positively impacts reported statistics, we will continue to handle each case individually and sensitively.

14. While the current twelve-month rolling figure is at 12.00 days per FTE, we have set an interim target of nine days per FTE by the end of March 2016 with a view to achieving the overall target of 7.5 days per FTE during 2016/17.

15. Accurate data collection, close management of long-term sickness, the identification of patterns in short-term sickness, implementation of improvement plans, and mandatory attendance management training are expected to drive down absence figures.

16. In addition to this our transport costs are £80k over budget. This is partly linked to the costs associated with the new relief warehouse. All deliveries from CEVA were handled by 3rd party carrier.

Surplus

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
TRADING SURPLUS	**1,529.3**	**3.4%**	**1,411.6**	**3.1%**	**996.7**	**2.2%**

17. Trading surplus is £0.1m ahead of budget and £0.5m ahead of last year.

18. Following the September mini trading peak a detailed forecast was prepared as part of the draft MTFS discussions covered elsewhere on the agenda. Our trading performance to date suggests that at this point the full year budget surplus of £3.3m will be achieved but there are risks in terms of stores non education sales. To mitigate this close control on overheads will need to be maintained and maximisation of rebate income compared to last year is critical.

Service Line

19. The detailed service line analysis is included in appendix 1 showing performance compared to budget for the Stores, Directs, Energy and Procurement. The central costs have been reallocated to reflect the new LT structure. The key trading period for procurement now starts as there are three peak quarters of rebate income to collect.

Balance Sheet and Cash Flow

20. A detailed balance sheet and cash flow is included in appendix 1.

21. Overall stock levels are £0.1m higher than at last year end and partly down to lower sales.

22. Debtors are £3.1m higher than year-end but this is seasonal reflecting the July peak. Debtor days were 44.0 compared to 48.8 this time last year.

23. Creditors are £1.6m lower than year-end linked to the payment of winter gas creditors.

24. In December 2015 the dividend of £1.5m will be paid to Members.

25. A detailed balanced scorecard is included in appendix 2 for the 6 months to September.

Resources Implications

26. None

Recommendation

27. The Committee is asked to consider and comment on the contents of the report and the attached appendices.

Equalities and Human Rights Implications

28. None

Risk Assessment

29. None identified

Officers to Contact

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Appendices

Appendix 1 - Balance Sheet and Cash Flow
Appendix 2 - Balanced Scorecard

EASTERN SHIRES PURCHASING ORGANISATION

CONSOLIDATED MANAGEMENT BALANCE SHEET AS AT Sep-15

31st March 2015 £	£		Sep-15 £	£
		FIXED ASSETS :		
	10,774,594	Net tangible Fixed Assets		10,774,594
		CURRENT ASSETS :		
5,392,376		Stocks	5,451,491	
8,172,572		Debtors	11,279,175	
1,360		Cash	560	
1,380,000		Short Term Investments	1,162,000	
	14,946,308	Other Current Assets		17,893,226
		CURRENT LIABILITIES :		
636,884		Short Term Loan	500,000	
11,504,765		Creditors	9,119,304	
625,893		Other current Liabilities	1,495,107	
-8,391,469	4,376,073	Cash Overdrawn	-5,183,656	5,930,755
	10,570,235	**NET CURRENT ASSETS**		11,962,471
		LONG TERM LIABILITIES		
	8,000,000	Long Term Borrowings		8,000,000
	13,344,829	**NET ASSETS**		14,737,065
		REPRESENTED BY:		
	11,222,789	Usable Reserves		12,615,026
	2,122,042	Unusable Reserves		2,122,042
	13,344,831	Total Reserves		14,737,068
				3
	2.18	Acid Ratio		2.10
	31.9	Debtor Days		44.0
	47.7	Creditor Days		47.3

Cash Flow from 01/4/2014 to Sep-15

	Sep-15
Surplus	1,371,083
AFINIMOFS	
Allocations to Maintenance and Equipment Reserves	80,002
Movement in Fixed Assets	0
Movement in Unusable/Earmarked Reserves	(58,846)
Total	1,392,239
Movement in Long Term Borrowings	
Payment of Dividend	
Movement in Long Term Items	0
(Increase)/Decrease in Stock	(59,115)
(Increase)/Decrease in Debtors	(3,106,603)
Increase/(Decrease) in Creditors	(1,653,131)
Movement in Working Capital	(4,818,849)
Total	(3,426,610)
Movement in Cash Balances	(3,426,613)
	(3)

Appendix 1

SERVICE LINE INCOME AND EXPENDITURE SUMMARY **Sep-15**

ACTUAL	**STORES**	**DIRECTS**	**ENERGY**	**PROCUREMENT**	**TOTAL**
	£000	**£000**	**£000**	**£000**	**£000**
STORES	24,080	0	0	0	24,080
DIRECT	0	9,871	0	0	9,871
GAS	0	0	8,490	0	8,490
CATALOGUE ADVERTISING	558	239	0	0	798
REBATE INCOME	144	0	378	1,555	2,077
MISCELLANEOUS INCOME	22	0	1	9	32
Total Sales	24,804	10,110	8,869	1,564	45,347
Less Cost of Sales	18,077	8,664	8,330	0	35,071
Surplus on Trading Account	6,727	1,446	539	1,564	10,276
Wages and Salaries	2,108	514	187	1,200	4,010
Agency Costs	650	6	0	13	669
Other Expenses	889	215	18	502	1,625
Transport	1,041	0	0	0	1,041
Operating Surplus	2,038	711	333	-151	2,931
%	8.2%	7.0%	3.8%	-9.7%	6.5%
Contribution to Central Costs					
Finance and IT	394	263	44	175	876
Marketing	0	0	0	0	0
Directorate	165	165	32	170	533
Net Surplus	1,479	283	258	-497	1,522
	6.0%	2.8%	2.9%	-31.8%	3.4%
Check Balance					0

BUDGET	**STORES**	**DIRECTS**	**ENERGY**	**PROCUREMENT**	**TOTAL**
	£000	**£000**	**£000**	**£000**	**£000**
STORES	25,204	0	0	0	25,204
DIRECT	0	9,913	0	0	9,913
GAS	0	0	7,771	0	7,771
CATALOGUE ADVERTISING	546	234	0	0	780
REBATE INCOME	0	0	211	1,492	1,703
MISCELLANEOUS INCOME	53	0	0	23	75
Total Sales	25,802	10,147	7,982	1,515	45,446
Less Cost of Sales	18,638	8,773	7,625	0	35,035
Surplus on Trading Account	7,164	1,374	357	1,515	10,411
Wages and Salaries	2,257	569	208	1,328	4,361
Agency Costs	466	10	0	23	498
Other Expenses	936	222	24	519	1,702
Transport	962	0	0	0	962
Operating Surplus	2,544	573	125	-354	2,888
%	9.9%	5.7%	1.6%	-23.4%	6.4%
Contribution to Central Costs					
Finance and IT	427	285	47	190	948
Marketing	0	0	0	0	0
Directorate	164	164	32	169	528
Net Surplus	1,953	125	46	-713	1,412
	7.6%	1.2%	0.6%	-47.1%	3.1%
Check Balance					0

Appendix 1

ACTUAL V BUDGET VARIANCE	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	-1,124	0	0	0	-1,124
DIRECT	0	-42	0	0	-42
GAS	0	0	719	0	719
CATALOGUE ADVERTISING	12	5	0	0	18
REBATE INCOME	144	0	167	63	373
MISCELLANEOUS INCOME	-31	0	1	-13	-43
Total Sales	-998	-37	887	50	-99
Less Cost of Sales	-561	-109	705	0	36
Surplus on Trading Account	-437	72	181	50	-135
Wages and Salaries	148	55	21	128	351
Agency Costs	-185	4	0	9	-172
Other Expenses	47	7	6	16	77
Transport	-79	0	0	0	-79
Operating Surplus	-505	137	208	203	43
%					
Contribution to Central Costs					
Finance and IT	32	22	4	14	72
Marketing	0	0	0	0	0
Directorate	-1	-1	0	-1	-5
Net Surplus	-474	158	211	216	111

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Summarised Balanced Scorecard Sep 15

Financial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Total Sales (inc Gas & Rebates)	£7,094,924	£8,380,568	-15.3%	£45,347,285	-0.2%
Total Gross Margin	£1,725,709	£1,799,295	-4.1%	£10,276,314	-1.3%
Total Expenditure	£1,395,064	£1,554,381	-10.2%	£8,746,653	-2.8%
Surplus	£330,644	£244,914	35.0%	£1,529,661	8.4%
Net Profit Margin %	4.66%	2.92%	1.74pp	3.37%	0.27pp

Rolling 12 months.....

Net Profit Margin %	2.85%	2.05%	0.80pp
Asset Turnover	4.1	4.2	-0.1
ROCE	11.74%	8.71%	3.03pp

Full year up to Aug 15 data....

	No. FTE at Aug 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	340	4,095	12.0	9.0	-3.0

Highlights

Finance & IT

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Proportion of E Orders	19%	20%	-0.68pp	19%	-0.82pp
Proportion of E Invoices	28%	20%	7.73pp	25%	5.25pp
Web Sales	£624,543	£666,232	-6.3%	£4,084,337	20.5%

Commercial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
New Customers	122	80	42	605	85

	Target	Q1	Q2	Q3	Q4
Customer Satisfaction Rate	2.4/4	3.15/4	0.0%	0.0%	0.0%
% Renewed on time	90%	93%	0.0%	0.0%	0.0%

Operations

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Lines picked per hour	31	22.5	9	28	6
Agency Cost	£90,817	£84,582	-7.4%	£639,665	-45.5%
Calls Abandoned	3.5%	3.0%	-0.46pp	3.0%	-0.00pp

Operations Balanced Scorecard Sep 15

Financial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock Sales	£3,907,826	£4,568,078	-14.5%	£24,045,813	-4.6%
Margin £	£1,061,932	£1,195,923	-11.2%	£6,146,841	-6.4%
Margin %	27.17%	26.18%	0.99pp	25.56%	-0.49pp
Orders	40,088	43,795	-8.5%	188,831	-9.0%
AOV	£97.48	£93.61	£3.87	£127.34	£11.34
Stock Turnover (weeks)	7.99	8.91	0.9		

Operational

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Lines Picked (CS only)	235,057	250,251	-6.1%	1,267,437	-7.8%
Warehouse Processing Cost per Order (inc Select, Goods In and Goods Out)				£8.48	
*Transport Cost per Drop				£14.20	
Processing & Transport Cost per Order				£22.68	
Wages & Salaries	£305,220	£315,020	3.1%	£1,819,585	7.1%
Agency Cost	£90,817	£84,582	-7.4%	£639,665	-45.5%
Productive Hours worked	7,489			44,745	
Lines picked per hour	31	22.5	9	28	6
Error rate	3%	2%	1.00pp	4%	2.25pp

Customer

Physical Stock £	Allocated Stock £	Avail Stock £	% Avail
£5,360,748	£238,604	£5,122,135	98.67

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Calls Abandoned	3.5%	3.0%	-0.46pp	3.0%	-0.00pp
FeeFo Feedback	97%	95%	2.00pp	97%	1.83pp

Employees

	Actual	Budget /LY	Var	YTD Actual	YTD Var
No. of staff forum meetings	1	1	0.0	6	0.0
Accidents	5			17	
Near Misses	0			6	

Full year up to Aug 15 data....

	No. FTE at Aug 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	180	3,222	17.9	9.5	-8.5

* Transport costs include Carrier, Drivers Pay, Agency, Fuel, Repair & Maintenance, Licences, Tyres, Hire & Insurance

Finance & IT Balanced Scorecard Sep 15

Financial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock & Direct Sales	£5,893,320	£6,923,217	-14.9%	£33,923,633	-3.4%
Margin £	£1,313,794	£1,466,868	-10.4%	£7,313,750	-5.1%
Margin %	22.29%	21.19%	1.11pp	21.56%	-0.39pp
Orders	47,356	51,993	-8.9%	221,537	-8.0%
AOV	£124.45	£124.93	-£0.48	£153.13	£10.70
Stock Turnover (weeks)	7.99	8.91	0.9		
Debtor Days	44	49	5		
Creditor Days	47	41	7		
Finance & IT Costs	£159,981	£163,927	2.5%	£876,471	8.1%

Efficiency

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Proportion of E Orders	19%	20%	-0.68pp	19%	-0.82pp
Proportion of E Invoices	28%	20%	7.73pp	25%	5.25pp
Web Sales	£624,543	£666,232	-6.3%	£4,084,337	20.5%
System Availability	100%	100%	0.0%	100%	0.0%

Employees

Full year up to Aug 15 data....

	No. FTE at Aug 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	30	96	3.1	19.8	16.7

Commercial Balanced Scorecard Sep 15

Catalogue Metrics

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock Sales	£3,907,826	£4,568,078	-14.5%	£24,045,813	-4.6%
Stock Margin £	£1,061,932	£1,195,923	-11.2%	£6,146,841	-6.4%
Stock Margin %	27.17%	26.18%	0.99pp	25.56%	-0.49pp
Direct Sales	£1,985,494	£2,355,139	-15.7%	£9,877,820	-0.4%
Direct Margin	£251,862	£270,945	-7.0%	£1,166,909	2.3%
Direct Margin %	12.69%	11.50%	1.18pp	11.81%	0.31pp
New Customers	122	80	42	605	85
Supplier Funding £	£907	£5,000	-81.9%	£797,507	2.2%

Framework

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Rebate Revenue	£373,429	£291,856	27.9%	£2,076,786	21.9%

	Target	Q1	Q2	Q3	Q4
% Renewed on time	90%	93%	0.0%	0.0%	0.0%
E tendering usage vs. paper tendering	40%	100%	0.0%	0.0%	0.0%
Number of contracts awarded to SMEs as a % of no of contracts awarded		78%	0.0%	0.0%	0.0%

Customer Engagement

	Current Month	YTD
Comms Newsletters	1	4
Focus Groups Held	0	0

	Target	Q1	Q2	Q3	Q4
Customer Satisfaction Rate	2.4/4	3.15/4	0.0%	0.0%	0.0%

Employees

Full year up to Aug 15 data....

	No. FTE at Aug 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	116	768	6.6	6.4	-0.2

Procurement Challenges

	Target	Q1	Q2	Q3	Q4
% of challenges against % of completed procurements	10%	0.0%	0.0%	0.0%	0.0%

MANAGEMENT COMMITTEE – 4 DECEMBER 2015

PROPOSAL TO CHANGE THE BASIS OF CALCULATING THE DIVIDEND DISTRIBUTION

JOINT REPORT OF THE CONSORTIUM TREASURER AND DIRECTOR

Purpose of Report

1. To consider the impact of moving to a different method of calculating the dividend distribution.

2. The possibility of moving to a revised method of dividend distribution was considered at Chief Officers Group on 18th May 2015. At that meeting the core principles of the dividend distribution model were agreed and it was resolved that the Director was to come back with a recommendation for the next meeting of the Chief Officers Group minimising the per member swing.

Background

3. The basis of the dividend distribution has remained unchanged for a number of years. A recent review by Internal; Audit contained a recommendation that the basis of the calculation be revisited by Members to ensure it is still appropriate. In addition the recent leaving of Leicester City Council from the Consortium also gives an opportunity for the basis of the dividend calculation to be reconsidered now that membership has been reduced from seven to six.

4. The previous method of calculating the dividend (as shown in appendix 1) included various multipliers to elements of trade with ESPO, the support and logic for which has been lost over recent years, and is increasingly difficult to be comfortable with as the basis to allocate future surplus.

5. The basic principles of an ESPO surplus calculation are considered to be as follows:

   - 80% of retained surplus distributed to Members each year;

   - Calculation should encourage usage of ESPO and its services, through the supply of consumables, framework usage and broader services where appropriate.

   - Consideration should be given to the equal shared risk between the members.

- Acknowledgment of prior engagement with the organisation in building the organisation to what it is today should also be a consideration.

Proposal

6. The proposal is that a minimum dividend of £30k per Member is fixed, 5% is based on the previous 5 years usage, 15% on usage of top 10 frameworks and the final balance is allocated on total catalogue usage (stores and direct) including academies. The impact of this is as follows:

TOTAL

	Total Dividend 14/15 £	Original Dividend £	Change £
Cambridgeshire	**232,940**	212,361	20,579
Leicester City	**0**	0	0
Leicestershire	**261,271**	249,148	12,123
Lincolnshire	**288,293**	325,930	-37,637
Norfolk	**350,973**	322,949	28,024
Peterboro City	**108,537**	108,950	-413
Warwickshire	**214,927**	237,602	-22,675
	1,456,940	1,456,940	0

The reason for choosing this proposal is that it was the mix of variables that had the smallest overall impact on Members compared to the previous method of distribution.

7. In the event that a £3.3m surplus is achieved in 2015-16 the dividend per Member will be as follows assuming the same level of usage:

TOTAL

	Total Dividend 14/15 £	**Total Dividend 15/16**
Cambridgeshire	**232,940**	**370,928**
Leicester City	**0**	**0**
Leicestershire	**261,271**	**416,042**
Lincolnshire	**288,293**	**459,072**
Norfolk	**350,973**	**558,882**
Peterboro City	**108,537**	**172,831**
Warwickshire	**214,927**	**342,245**
	1,456,940	**2,320,000**

8. The previous 5 years usage metric will be calculated on a rolling 5 year basis. This has the effect of building a multiplier in to the calculation as credit is given in year for high usage and this is then rolled in to the following year's calculation for usage. This encourages continued and long term high usage of ESPO.

Conclusion

9. A move to a more equal risk calculation, including framework usage, historical usage and catalogue usage would represent a more equitable split of the dividend.

Resources Implications

10. None

Recommendation

11. The Committee is asked to comment on and approve the proposal to change the method of calculating the dividend distribution as outlined in paragraph 5 of the report.

Equalities and Human Rights Implications

12. None

Risk Assessment

13. None

Officers to Contact

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Appendices

Appendix 1 - Previous dividend distribution model.

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ESPO DIVIDEND DISTRIBUTION

	STORES			CENTRAL PURCHASING								TOTAL			
	Sales £000's	%	Dividend £	Contracts Sales £000's	Directs Sales £000's	Strategic £000's	Contracts Sales x2 £000's	Directs Sales x 7 £000's	Total sales £000's	%	Dividend £	**Total Dividend £**	Prior Year £	Change £	
Cambridgeshire	2449	15.0	267,537	6,247	1250		12,494	8,751	22,495	16.59	-55,176	**212,361**	232,624	-20,263	-8.7%
Leicester City	0	0.0	0	0	0		0	0	0	0.00	0	**0**	207,008	-207,008	-100.0%
Leicestershire	2897	17.7	316,570	9,693	1013		19,386	7,090	27,488	20.27	-67,422	**249,148**	210,555	38,593	18.3%
Lincolnshire	3524	21.5	384,931	6,185	1461		12,369	10,225	24,055	17.74	-59,001	**325,930**	233,814	92,116	39.4%
Norfolk	3843	23.5	419,827	13,392	1589		26,785	11,123	39,497	29.13	-96,878	**322,949**	341,153	-18,204	-5.3%
Peterboro City	1115	6.8	121,868	164	617		327	4,322	5,267	3.88	-12,918	**108,950**	93,467	15,483	16.6%
Warwickshire	2552	15.6	278,811	4,494	977		8,987	6,838	16,801	12.39	-41,209	**237,602**	209,876	27,726	13.2%
								0							
County sales	16380	100.0	1789544	40174	6907	0	80349	48348	135603	100.00	-332,604	**1,456,940**	1,528,497	-71,557	-4.7%

Dividend Payments

		Stores	CP	Total	
Net Surplus		2,578,155	-415,812	2,162,342	
Earmarked Funding		-200,000	-200,000	-400,000	
Trading Surplus		2,378,155	-615,812	1,762,342	
				0	
		2,378,155	-615,812	1,762,342	
Equals	20%	588,611	-283,208	305,402	Retained Surplus
	80%	1,789,544	-332,604	1,456,940	
Less Earmarked funding					
		2,378,155	-615,812	1,762,342	Distributable Surplus

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Agenda Item 9

MANAGEMENT COMMITTEE – 4 DECEMBER 2015

NATIONAL LIVING WAGE

REPORT OF THE DIRECTOR & CONSORTIUM TREASURER

Purpose of Report

1. The purpose of this report is to outline the potential impact of the implementation of the National Living Wage (NLW).

Background

2. The summer budget increased the national minimum wage by 11% from £6.50 per hour to £7.20 from April 2016 for over 25's and renamed it the National Living Wage (NLW). Thereafter it will increase to 60% of the national median wage by 2020.

Overall Costs

3. The table below shows that the cost to ESPO of this Government policy could be in the region of £1.5m in 2020/21 and £570k in the year when we are targeting to achieve a £6m surplus.

4. Whilst we intend to absorb the 2016/17 impact of the Living Wage changes, the outer years are not currently factored into the MTFS.

	2016-17	2017-18	2018-19	2019-20	2020-21
	£k	£k	£k	£k	£k
Existing Staff	0	100	250	430	700
Impact on School Budgets	10	20	50	80	130
Impact on Suppliers	5	20	20	30	50
Impact on Wage Differentials	5	100	250	430	700
TOTAL	**20**	**240**	**570**	**970**	**1,580**

5. The Government has not stated whether under the new burdens agreement the impact on will be offset by additional resources. However, should it be the case, it is not likely to be afforded to organisations such as ESPO.

6. As such at this stage the assumption is that there will be a major impact on the MTFS.

Assumptions

7. The following assumptions have been made in arriving at the above figures:

a) That the NLW increases in the following linear manner:

Year	2016-17	2017-18	2018-19	2019-20	2020-21
Rate	7.20	7.84	8.48	9.11	9.75

b) This assumes the most prudent rate of £9.75 in 2020/21 referred to under risks below.

c) The impact on pay for ESPO has been calculated on an individual basis by looking at the budget payroll file for 2015-16. The assumption is that everyone on pay-point 15 or below will be impacted directly.

d) The impact on pay differentials is important. As it stands, housekeepers in the warehouse at ESPO would earn the same as drivers without taking this in to account. To ensure the differentials are maintained, the working assumption is that at least the same amount needs to be allowed for in differentials as the increase in pay under the NLW. It may be more.

e) Consumables are a day-to-day reality for schools and are not a large individual item in the budget. If schools' budgets are however not compensated, then a possible 1% drop in volume could be expected on store sales.

f) We expect to be exposed to increases in supplier costs; however, there are a number of ways that we can seek to reduce the impact of these items including:

- Increased competitions/sales
- Overseas sourcing
- Increased prices
- Looking to serve a wider audience is also likely to become important, and this may now be the catalyst to explore the creation of a vehicle whereby we may serve the private as well as the public sector.

g) We need to consider and plan for the impact to ESPO, the protection of the shift premium structure, and Leicestershire County Council approach to the Living Wage.

Risks

8. It is not straightforward to forecast the impact on the ESPO's budget due to a number of uncertainties and unknowns. The estimate needs to be treated with caution; however, it does indicate the scale of the challenge.

9. Some of the risks and uncertainties are set out below:

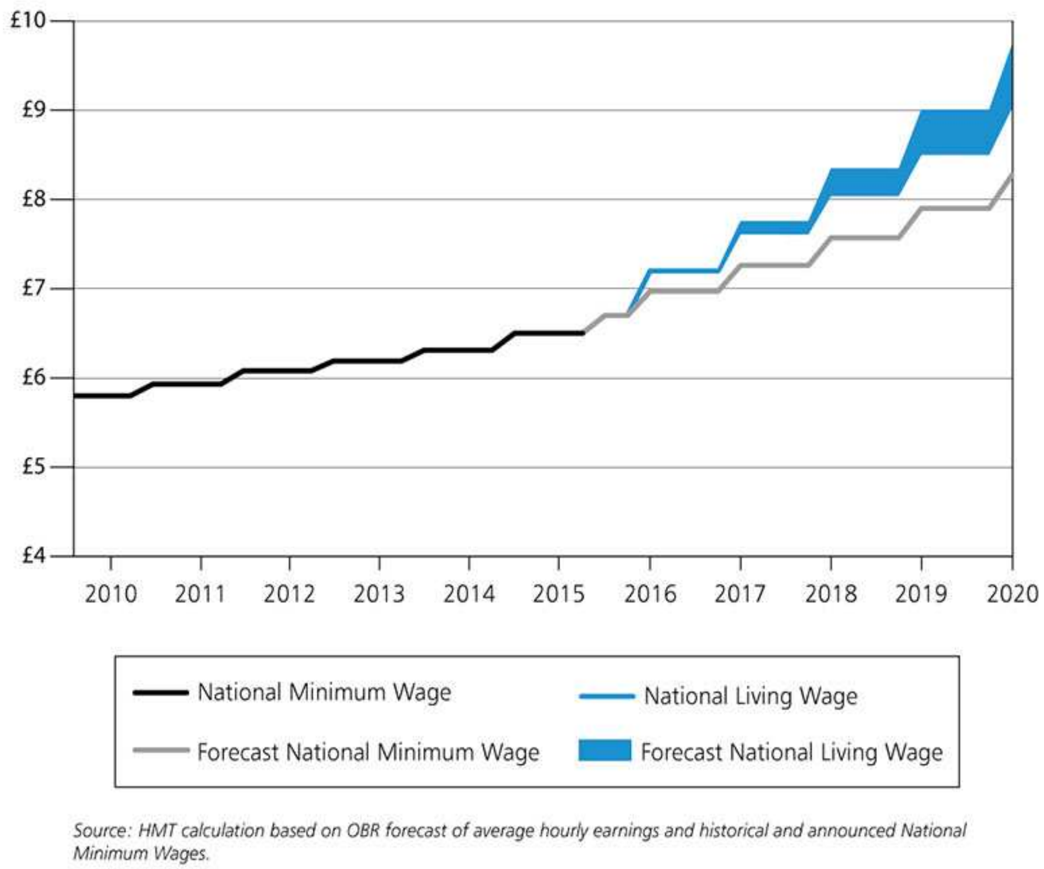
- Knock on impact on pay scales - to maintain an element of pay differential, this has been factored in above but may be more;
- Knock on impact on the labour market - unintended consequences;
- Under 25 impact - the minimum pay for people under 25 will continue to be set by the minimum wage.

- Impact on customers as they have less to spend is included in the assumptions above, but clearly this is an initial estimate.

- The path of change is from £7.20 to £9 or more by 2020/21; however, the Office of Budget Responsibility (OBR) forecasts £9.35 by 2020/21, although a range from £9 to around £9.75 is suggested by the chart reproduced below.

10. HM Treasury suggests that the NLW 'will mean a direct boost in earnings for 2.7m low wage workers, and the OBR have indicated that knock-on effects further up the wage distribution could mean a further 3.25m people see an increase in wages as a result of the NLW'.

National Minimum Wage and National Living Wage, historical and forecast



11. There is no doubt that this is a significant government policy where the implications can at best be described as uncertain. There will be a number of implications which could include:

- Schools coming under increasing financial pressure especially in low funded areas such as Leicestershire.
- Pressure to maintain margins at the supplier base as they seek to pass the impact on in prices.

Next Steps

12. The following challenges will need to be considered:

    - Identify the potential impact on our organisation;
    - See how, in the short term, this can be accommodated within our budget;
    - Efficiencies have already been baked into the revised MTFS and, therefore, it is unlikely that we would be able to create further efficiencies to absorb this hike in our cost base.
    - Reshape our growth ambitions to ensure we are not wholly dependent on the increased margin costs.

13. This obviously has a significant impact on the MTFS. Appropriate contingency plans will need to be made to ensure the budget can be balanced in 2016/17 and later years.

14. Whilst the ESPO Leadership team continue to identify as much savings as possible and also consider the likely impact on the delivery of the MTFS surplus, the material cost impact of the Living Wage will be overlaid on the current MTFS plan and considered in the planning for wider initiatives being developed for the outer years.

Resources Implications

15. Over £570k of extra costs are likely to be incurred in 2018/19.

Recommendation

16. Members are asked to note the content of this report.

Officer to Contact

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Leicestershire County Council

ESPO MANAGEMENT COMMITTEE – 4 DECEMBER 2015

REVIEW OF THE FREQUENCY OF FINANCE AND AUDIT SUBCOMMITTEE MEETINGS

REPORT OF THE CONSORTIUM SECRETARY

Purpose of Report

1. The purpose of this update is to review the need for and the frequency of meetings of the Finance and Audit Subcommittee.

Background

2. The Finance and Audit Subcommittee was established in June 2012 as part of a wider effort to ensure that robust governance and monitoring arrangements were developed and implemented.

3. At present the Finance and Audit Subcommittee meets on a quarterly basis, usually a few weeks before the Management Committee meeting. In accordance with the Terms of Reference, the Subcommittee is currently responsible for:-

   - Developing a better understanding of the financial planning process undertaken by ESPO;
   - Supporting the financial planning process by reviewing draft financial plans for consideration at Management Committee;
   - Contributing to the setting of financial performance targets and monitoring of efficiencies;
   - The receiving and reviewing of regular reports on budget and performance monitoring;
   - To receive and review audit and governance reports.

4. At its meeting on 8 September 2015, members of the Finance and Audit Subcommittee requested that the current cycle of quarterly Subcommittee meetings be reviewed, with the intention of reducing this to two meetings per annum.

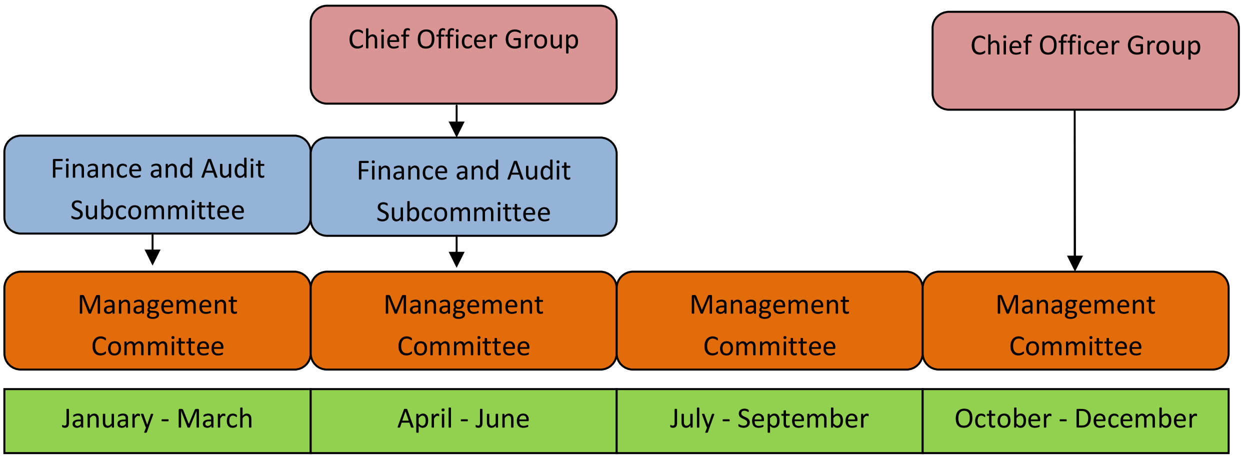
5. The proposal to reduce the number of Subcommittee meetings also reflects the view of members that as an organisation, ESPO is in a significantly better position than when these governance arrangements were originally conceived, and a reduction in the frequency of meetings would also assist the member authorities at a time when resources are stretched.

Proposal

6. If the Management Committee agrees the recommendation to reduce the number of Finance and Audit Subcommittee meetings to two per year, it is suggested that the remaining meetings should take place to coincide with key financial dates in the accounting diary, viz. a meeting in January/February to consider the draft Medium Term Financial Strategy and budget for the next financial year, and a meeting in May/June to consider the draft outturn and accounts for the previous financial year.

7. The Head of the Internal Audit Service would continue to submit quarterly progress reports against the internal audit plan for consideration by the Consortium Treasurer and Director. Where any issues of concern had been identified, members of the Finance and Audit Subcommittee would be informed.

8. If these proposals were implemented, the flow chart below summarises in broad terms the potential cycle of ESPO meetings during a typical year:



9. The above chart does not reflect the fact that the Director of ESPO and members of the Management Team will continue to meet locally with members of the Consortium Authorities to brief them at an early stage of any developments, as well as allow members to talk about potential issues and developments that they may wish ESPO to assist with.

10. As per the Consortium Agreement, members of the Subcommittee, or the Chair of the Management Committee, would be able to request an extraordinary meeting of the Subcommittee should any significant financial or audit event occur.

Timetable for decisions

11. The Finance and Audit Subcommittee will be consulted on these proposals at its meeting on 16 November 2015 before seeking approval from the

Management Committee on 4 December 2015. Subject to Management Committee approval the new meeting cycle will be implemented in 2016.

Legal Implications

12. The County Solicitor has been consulted on the content of this report. No amendments to the Consortium Agreement for ESPO would be required as a result of these proposals.

Resource Implications

13. If the proposals outlined in this report are agreed by the Management Committee, this would have a positive impact on resources for ESPO and its member authorities without affecting the necessary oversight required.

Recommendation

The Management Committee is asked to approve the reduction of Finance and Audit Subcommittee meetings from four to two per annum.

Officers to contact

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Agenda Item 13

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