



ESPO FINANCE AND AUDIT SUB COMMITTEE – 23 February 2015

AGENDA ITEM NO.4

MTFS MONITORING FOR THE FIRST 9 MONTHS OF 2014-15

**REPORT OF THE DIRECTOR AND
CONSORTIUM TREASURER**

Purpose of Report

1. This report sets out the results for the first nine months of trading April to December 2014 as per the management accounts with explanations for the more significant variances to budget.

Background

2. The Finance and Audit Subcommittee are updated quarterly on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy.

Financial Performance for the first 9 Months of 2014-15 compared to the MTFS.

Sales

	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
<u>SALES</u>			
STORES	33,394.0	34,029.0	32,428.0
DIRECT	15,289.8	15,105.9	16,931.9
GAS	13,311.0	19,082.3	16,240.2
CATALOGUE ADVERTISING	740.3	879.4	870.3
REBATE INCOME	3,127.2	2,123.9	2,774.4
MISCELLANEOUS INCOME	85.2	138.5	158.9
<u>TOTAL SALES</u>	65,947.5	71,359.0	69,403.8

3. Total sales at £65.9m are behind budget of £71.4m principally down to lower gas sales which are showing an adverse variance of £5.8m. This is weather dependant and not a reflection of lost business.
4. Store sales are £635k behind budget but £966k ahead of last year.
5. Direct sales have held up strongly considering that the Phonics DofE initiative came to an end last October. They have largely been replaced by

the current school meals initiative.

6. Rebates are £1,004k ahead of budget and £353k ahead the prior year. Some rebates have been collected quarterly this year rather than at the end of the financial year in March. Current forecasts indicate that the year-end rebate number will be at least in line with the prior year at £5m
7. Catalogue advertising remains behind budget but discussions suggest that some catalogue advertising has been booked as rebate income from suppliers and this explains the bulk of the variance.

Margin

	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
<u>Margin</u>			
STORES	8,421.6	8,260.8	7,921.2
DIRECT	1,808.8	1,632.9	1,571.6
GAS	155.6	223.0	339.3
CATALOGUE ADVERTISING	740.3	879.4	870.3
REBATE INCOME	3,127.2	2,123.9	2,774.4
MISCELLANEOUS INCOME	85.2	138.5	158.9
<u>TOTAL MARGIN</u>	<u>14,339.5</u>	<u>13,258.6</u>	<u>13,635.7</u>

8. Overall margin is £1,081k ahead of budget due to higher rebates and improved stores margin.
9. Stores mark-up is 33.7% compared to a budget of 32.4%. Overall the mix has been more favourable towards higher margin items than expected in the budget. Last year the comparable figure was 34.1% and we expected a fall as a result of the sub inflation pricing strategy.
10. The impact of the shortfall in gas sales of over £5.8m is the reduced margin of £67k.

Expenditure

	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
<u>EXPENDITURE</u>			
EMPLOYEES			
Staff	7,333.0	7,141.8	6,889.0
Agency/Contract	1,122.6	701.9	803.9
Total	<u>8,455.7</u>	<u>7,843.7</u>	<u>7,693.0</u>
OVERHEAD EXPENSES			
Stores	3,088.6	2,978.9	2,949.2
CP	1,765.5	1,629.6	1,600.3
Total	<u>4,854.1</u>	<u>4,608.5</u>	<u>4,549.5</u>
TOTAL EXPENDITURE	<u>13,309.8</u>	<u>12,452.2</u>	<u>12,242.5</u>

11. Total expenditure is £857k ahead of budget principally driven by higher agency costs and staff costs. This is a result of the significant pressures experienced whilst servicing peak demand.

12. Staff costs have risen beyond budget levels as a result of vacancy levels throughout the organisation not being as high as budgeted.

FTE numbers as at December 2014 are as follows

	<u>YEAR TO DATE</u>		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
EMPLOYEES NUMBERS (Full-time equivalents):			
Stores	169	181	161
Purchasing	92	105	95
Indirects	84	80	81
TOTAL EMPLOYEES	<u>346</u>	<u>366</u>	<u>338</u>

13. Warehouse agency costs are £405k over budget reflecting the challenges incurred during the peak period and the length of time taken recover from being behind on deliveries over that period.

14. In addition to this our 3rd party distribution costs are £190k over budget. This is also a cost associated with being behind as customers chase urgent delivery.

15. At the time of the budget for 2014-15 an overlay of £200k was applied to CP overhead expenses as an efficiency challenge. Though partly delivered in the period to December 2014 further efficiencies are required.

Surplus

	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
TRADING SURPLUS	<u>1,029.8</u>	<u>806.4</u>	<u>1,393.2</u>

16. Trading surplus is £223k ahead of budget but £364k behind last year.
17. At the November 2014 Finance and Audit Sub Committee members were given guidance that the year-end surplus will fall in the range of £2.0-2.2m compared to a budget of £2.2m. This guidance still stands.

Service Line

18. The detailed service line analysis is included in Appendix 1 showing performance compared to budget for the Stores, Directs, Energy, Frameworks and Consultancy. All areas are making a net contribution apart from consultancy which is showing a small loss.

Balance Sheet and Cash Flow

19. A detailed balance sheet and cash flow is included in appendix 2.
20. Overall stock levels are £257k higher than at last year end reflecting stocking up in advance of the January mini peak.
21. Debtors are £3.0m lower than year-end but this is seasonal though debtor days at 26.17 were ahead of the prior year of 32.57. The cash collection teams are planning to achieve debtor days of below the March 2014 level of 36.69.
22. Creditors are lower as a result of paying winter gas charges to Total for our customers.
23. In December 2014 the dividend of £1.5m was paid to Members.

Resources Implications

24. None

Recommendation

25. The Subcommittee is asked to consider and comment on the contents of the report and the attached appendix's.

Equal Opportunities Implications

26. None

Risk Assessment

27. None identified

Officers to Contact

Mr J Doherty – Director (Tel: 0116 265 7931)

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Appendices

Appendix 1 Service Line Analysis

Appendix 2 Balance Sheet and Cash Flow

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