



## ESPO FINANCE AND AUDIT SUBCOMMITTEE – 9 JUNE 2015

### DRAFT OUTTURN 2014/15

### REPORT OF THE CONSORTIUM TREASURER

#### Introduction

1. This report sets out the draft outturn for 2014/15 with explanations for the more significant variances to prior year, budget and forecast. Members should note that the outturn will be subject to external audit. A summary profit and loss statement (P&L) is presented below:

	Mar-15			
	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
TOTAL SALES	93,588.5	99,720.0	95,605.3	94,019.2
TOTAL MARGIN	20,196.8	18,693.9	19,329.4	18,643.4
Margin %	21.6%	18.7%	20.2%	19.8%
TOTAL EXPENDITURE	17,975.7	16,522.3	16,946.6	15,959.6
TRADING SURPLUS	<u>2,221.1</u>	<u>2,171.5</u>	<u>2,382.8</u>	<u>2,683.8</u>

## Trading Summary

### Income

Mar-15

	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
<u>SALES</u>				
STORES	43,403.1	44,140.7	42,333.8	40,316.1
DIRECT	20,508.5	19,519.1	21,625.5	23,296.1
GAS	22,710.8	30,582.0	25,472.5	24,404.2
CATALOGUE ADVERTISING	799.7	940.2	930.5	918.5
REBATE INCOME	5,994.3	4,338.0	5,049.7	4,858.0
MISCELLANEOUS INCOME	172.2	200.0	193.2	226.3
<b>TOTAL SALES</b>	<b>93,588.5</b>	<b>99,720.0</b>	<b>95,605.3</b>	<b>94,019.2</b>

2. Overall the organisation's invoiced turnover for the year including rebates was £93.6m. This was 2.0% (£2m) lower than the prior year which was primarily due to lower gas sales and direct, offset by higher rebates.
3. Stores' sales value has increased this year, compared to the prior year, by £1.1m (3%) to £43.4m. This increase is all volume related as price increases for 2014-15 were minimal. Sales to member authorities including academies have increased by 2%, while sales to other authorities have increased by 8%.
4. The growth in store sales was thus principally achieved in non-member areas.
5. As a result of the Department of Education Phonics initiative coming to an end in October 2013 the Directs catalogue products business decreased to £20.5m from £21.6m the prior year, a fall of 5.3%. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.
6. Rebate income was £5.9m an increase of £0.9m on prior year. The reasons for the increase are as follows:
  - Increased usage of framework contracts
  - A number of one off rebates linked to specific procurement activities
  - A change in process such that the collection of rebates is now a joint effort between finance and procurement.

This has been achieved while continuing to reduce rebate margin from our suppliers.

7. Catalogue advertising was £0.8m and was consistent with forecast. The variance to budget is due to some cross over with rebate income at the time the invoices were raised.
8. Compared to last year overall sales are £2.1m lower driven by lower gas sales offset by higher rebates.
9. Compared to forecast overall sales are £0.6m lower driven by lower gas sales and slightly lower store sales.

### Margin

10. Stores margin (mark up) decreased to 31.9% compared to 32.2% in the budget. The budget reflected the pricing strategy of low prices the variance was down to slightly higher pallet and packaging costs.
11. Directs margin (mark up) was 13.3% compares to 12.1% in the budget. This was driven by improved supplier performance (less credits and restocking charges) and improved mix.
12. Total margin was £20.2m compared to a prior year of £19.3m, mainly as a result of higher rebates but also improved directs sales margin.
13. Compared to forecast total margin was £0.5m higher driven once again by higher rebates and improved directs margin.

### Expenditure

Mar-15

	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
<u>EXPENDITURE</u>				
EMPLOYEES				
Staff	9,847.5	9,551.7	9,304.2	9,560.5
Agency/Contract	1,467.1	901.8	1,085.3	830.0
Total	11,314.6	10,453.5	10,389.5	10,390.4
OVERHEAD EXPENSES				
Stores	4,157.3	3,960.6	4,095.4	3,837.5
CP	2,503.9	2,108.2	2,461.6	1,731.7
Total	6,661.2	6,068.8	6,557.0	5,569.2
TOTAL EXPENDITURE	17,975.7	16,522.3	16,946.6	15,959.6

14. Total expenditure increased by £1.0m compared to last year. The key elements of this are as follows:
- Transport costs increased by £0.2m. This is mainly as a result of the aged fleet but also down to increased carrier costs. The issue of “to follow” orders also had an impact as stock levels fell over the summer months and stock availability suffered as a result.
  - Higher agency costs of £0.4m as a result of the difficulties encountered over the summer peak.
  - Higher staff costs due to the impact the full year impact of new starters and new marketing and communications staff.
  - Bad debt provision reduced by £0.08m to £0.04m as a result of lower debtor days and improved cash collections. The provision has been prepared on a consistent basis to prior years and is considered sufficient to cover known risks.
15. Compared to forecast total expenditure was £0.3m higher. The key elements of this are as follows:
- Higher agency costs in Q4
  - Higher transport costs linked to the aged fleet.
  - Increased car lease balloon payments.
16. Total expenditure as a percentage of sales excluding gas rose to 25.2% compared to the prior year 24.2%.

### Summary

17. The Net Surplus for the year was £2.2m which is in line with budget and £0.2m higher than forecast. Whilst £0.2m lower than last year this is as a result of increased expenditure offset by higher rebates and improved direct margins.
18. Arising from the 2014-15 out-turn the key impact on next year’s budget would be the higher than forecast overheads at £17.9m. The budget for 2015-16 is £17.9m. In May the Leadership Team met to evaluate opportunities and risks so that particular courses of action have been identified to ensure overheads and surplus remains on track to be delivered for 2015-16.
19. Further information which informs the Draft Outturn 2014/15, of a commercially sensitive nature, is contained elsewhere on the agenda for this meeting, this includes:
- a) Analysis of underlying profitability compared to MTFS
  - b) Detailed breakdown of the overhead expenditure
  - c) Analysis by Service Lines
  - d) Detailed Balance Sheet
  - e) Staffing Analysis

### Service Line Analysis

20. The operating surplus before central allocations for Stores was £2.4m against a budget of £2.9m due to principally higher agency costs

21. Framework Contracts achieved an operating surplus of £2.9m against a budget of £2.5m. This was driven entirely by higher rebates achieved at year end.
22. Energy and Fuels operating surplus was £0.9m against a budget of £0.8m.
23. The detailed Service Line Analysis is included in the exempt part of the report elsewhere on the agenda.

#### Allocations from Operating Surplus

24. A continued further allocation of £0.4m is proposed to be used for the Building Maintenance and Capital Provision. The provision is necessary to ensure the building is maintained at an acceptable standard with funds allocated and available to meet general repairs and capital replacements/ improvements. This is consistent with the prior year and the MTFS.
25. It is proposed to deliver a return to members in excess of the forecast in March 2015. The forecast was for a surplus of £2.0m less the £0.4m for the building provision. This would leave a £1.6m forecast surplus of which members receive 80% or £1.3m. The actual dividend to Members will be £1.4m

#### Distribution of Surplus:

26. The breakdown of the distribution of the surplus is thus as follows:

£m	<u>2015</u>	<u>2014</u>
Operating Surplus	2.2	2.4
Building Provision	0.4	0.4
Warehouse automation	0.0	0.1
Net Surplus	1.8	1.9
General Fund	0.4	0.4
Dividend	1.4	1.5

27. The amount available for distribution after the above allocations to reserves is £1.80m of which 80% (£1.4million) is attributable to member authorities as a dividend. Year on year the member dividend has thus been reduced by £0.1 compared to the prior year.

#### ESPO Balances

28. The General Fund balance is primarily to meet any adverse trading conditions, provide funding for stock balances and other expenditure prior to the receipt of income. Established practice is that 20% of operating surplus is added to this fund up to a maximum of 5% of turnover. For 2014/15 £0.4m has been added to the General Fund balance representing 20% of surplus. The level of General Fund balance is expected to increase annually until the agreed maximum is retained according to the approved funding formula, this is not expected to be reached during the period of the current MTFS.

A breakdown of reserves as at 31<sup>st</sup> March 2015 is as follows:

**Analysis of Reserves 31/3/2015 £k**

Analysis of Cash Reserves	<u>6084</u>
Strategic Review Implementation	<u>400</u>
Property Replacement	<u>1200</u>
Total Renewals Funds Reserve	<u>3756</u>

**Earmarked Projects**

Legal Reserve	235
Warehouse Automation	100
Balance on Indigo and other projects over time	393
Total Earmarked Projects	<u>728</u>

**Recommendation**

29. The Subcommittee is asked to recommend to the Management Committee:
- (a) approval of the draft out turn for 2014/15;
  - (b) allocations from the operating surplus for 2014/15 as outlined in paragraphs 23 and 24 of this report;
  - (c) payment of the dividend, subject to approval of the accounts in September 2015, as outlined in paragraphs 25 and 26 of this report;

**Officer to Contact**

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**List of Appendices**

Appendix 1 – ESPO Management Accounts for Year End 31 March 2015