ESPO FINANCE AND AUDIT SUB COMMITTEE – 8TH SEPTEMBER 2015

MTFS MONITORING FOR THE FIRST 4 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 four months of trading April to July 2015 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 4 Months of 2015-16 compared to the MTFS.

Sales

	YEAR TO DATE				
	ACTUAL		BUDGET		PRIOR YEAR
	£000	%	£000	%	£000
STORES	17,428.0		17,877.5		16,091.1
DIRECT	6,600.5		6,351.7		6,603.1
GAS	6,787.4		5,634.4		6,629.6
CATALOGUE ADVERTISING	788.1		770.0		734.9
REBATE INCOME	1,486.1		973.4		1,028.7
MISCELLANEOUS INCOME	23.0		50.0		12.2
	33,113.1		31,657.0		31,099.6

3. Total sales at £33.1m ahead of budget of £31.7m principally down to higher gas sales which are showing a positive variance of £1.1m. Gas sales are however almost exactly consistent with the prior year.

4. Store sales are £449k behind budget but £1,337k ahead of last year. The variance to last year is down to the success of the relief warehouse which has enabled us to

achieve our deliveries on time. It is thus timing as eventually last year the warehouse deliveries were back on track.

5. Direct sales are £249k ahead of budget helped by a large MOD order for white goods. Compared to the prior year there is no variance which is a good performance as there was the one off impact of the free school meals initiative last year.

6. Rebates are £513k ahead of budget and £458k 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 £54k ahead of the prior year.

Margin

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
STORES	4,334.0	33.1%	4,680.3	35.5%	4,043.1	33.6%
DIRECT	766.7	13.1%	730.7	13.0%	748.0	12.8%
GAS	121.3	1.8%	100.7	1.8%	140.1	2.2%
CATALOGUE ADVERTISING	788.1		770.0		734.9	
REBATE INCOME	1,486.1		973.4		1,028.7	
MISCELLANEOUS INCOME	23.0		50.0		12.2	
	7,519.2		**7,305.2**		**6,707.0**	

8. Overall margin is £214k ahead of budget due to higher rebates and improved directs margin.

9. Stores mark-up is 33.1% compared to a budget of 35.5% and a prior year of 33.6%. Clearly the budget mark-up was a challenge but the bulk of the absolute pounds variance is down to volume. A review of the impact of the 1.7% price rise in the 2015-16 catalogue is currently being carried out to determine if this has caused a shift in customer demand.

10. The impact of the additional gas sales is the increased margin of £21k.

Expenditure

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EMPLOYEES						
Staff	3,290.8		3,553.2		3,276.7	
Agency/Contract	523.5		358.9		473.2	
Total	3,814.3		3,912.0		3,749.9	
OVERHEAD EXPENSES						
Transport	761.6		641.0		731.6	
Warehouse	628.3		629.2		624.0	
Procurement	73.7		120.0		85.9	
	1,463.6		1,390.2		1,441.5	
Marketing	569.6		501.4		511.5	
Finance and IT	268.1		297.0		293.5	
Directorate	18.7		8.5		15.1	
	856.3		806.9		820.1	
Total	2,319.9		2,197.1		2,261.5	
	6,134.2	18.5%	6,109.1	19.3%	6,011.5	19.3%

11. Total expenditure is £25k over budget principally driven by higher agency costs offset by lower staff costs. The lower staff costs are principally down to reduced FTE's.

FTE numbers as at July 2015 are as follows

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	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
Stores	159	166	173
Purchasing	90	107	93
Indirects	85	89	83
TOTAL EMPLOYEES	333	362	349

12. Warehouse agency costs are £182k over budget though offset to some extent by a £115k underspend on FTE's. Part of the high spend is driven by long term sickness rates which are now being addressed.

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 11.84 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 3rd party distribution costs are £130k 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.

17. Overall costs as a percentage of sales have fallen to 18.5% from 19.3% last year and 19.3% in the budget.

Surplus

YEAR TO DATE					
ACTUAL		BUDGET		PRIOR YEAR	
£000	%	£000	%	£000	%
1,385.0	**4.2%**	**1,196.1**	**3.8%**	**695.5**	**2.2%**

18. Trading surplus is £189k ahead of budget and £690k ahead of last year.

19. Following the September mini trading peak a detailed forecast will be prepared at the half year. Our trading performance to date suggests that at this point the full year budget surplus of £3.3m will be achieved but the sales mix will be different.

Service Line

20. The detailed service line analysis is included in Appendix 1 showing performance compared to budget for the Stores, Directs, Energy and Procurement. All areas are making a net contribution.

Balance Sheet and Cash Flow

21. A detailed balance sheet and cash flow is included in Appendix 2.

22. Overall stock levels are £891k higher than at last year end reflecting stocking up in advance of the September mini peak.

23. Debtors are £2.7m higher than year-end but this is seasonal reflecting the July peak. Debtor days were 41.5 compared to 47.3 this time last year. Cash receipts in July were 20% ahead of last year reflecting the impact of on time deliveries.

24. Creditors are £730k higher linked to the increased stock levels.

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

Resources Implications

26. None

Recommendation

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

Equality and Human Rights Implications

28. None

Risk Assessment

29. None identified

Officers to Contact

Mr J Doherty, Director
Tel: 0116 265 7931
E-mail: j.doherty@espo.org

Mr C Tambini, Treasurer to the Consortium
Tel: 0116 305 7831
E-mail: chris.tambini@leics.gov.uk

Appendices

Appendix 1 - Service Line Analysis
Appendix 2 - Balance Sheet and Cash Flow