



## **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 18<sup>th</sup> 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:

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

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

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.