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.

<u>Surplus</u>

	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

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Appendices

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