ESPO

ESPO FINANCE AND AUDIT SUB COMMITTEE – 22 FEBRUARY 2016

MTFS MONITORING FOR THE FIRST NINE MONTHS OF 2015/16

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 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 nine months of 2015/16 compared to the MTFS

Sales

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
SALES			
STORES	32,482.8	35,208.2	33,394.0
DIRECT	14,645.7	14,905.8	15,289.8
GAS	13,180.9	15,267.2	13,311.0
CATALOGUE ADVERTISING	800.7	835.0	740.3
REBATE INCOME	3,348.5	2,959.1	3,127.2
MISCELLANEOUS INCOME	68.3	112.5	85.3
TOTAL SALES	**64,527.0**	**69,287.7**	**65,947.5**

3. Total sales at £64.5m are £4.8m behind budget of £69.3m, principally down to lower ‘store’ sales which are showing a negative variance of £2.7m. Gas sales are adverse to budget by £2.1m. This is principally due to lower wholesale prices, the benefit of which has been passed on to our customers. The impact on profit is thus negligible.

4. ‘Store’ sales are £2,726k behind budget and £912k adverse to last year. The key area of decline has been in our non-education ‘store’ sales; our education business is holding up comparably well.

5. ‘Direct’ sales are £260k behind budget helped by a large Ministry of Defence (MOD) order for white goods. Compared to the prior year, there is a £131k adverse variance principally due to the one-off impact of the free school meals initiative last year.

6. Rebates are £389k ahead of budget and £221k 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 £35k down on budget and £60k ahead of the prior year.

<u>Margin</u>

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
Margin						
STORES	8,284.7	34.2%	9,215.4	35.5%	8,421.6	33.7%
DIRECT	1,828.7	14.3%	1,714.8	13.0%	1,808.8	13.4%
GAS	211.7	1.6%	245.2	1.6%	155.6	1.2%
CATALOGUE ADVERTISING	800.7		835.0		740.3	
REBATE INCOME	3,348.5		2,959.1		3,127.2	
MISCELLANEOUS INCOME	68.3		112.5		85.3	
TOTAL MARGIN	**14,542.9**		**15,082.0**		**14,338.8**	

8. Overall margin is £514k down on budget, principally due to lower ‘store’ sales offset by improved ‘directs’ margin.

9. ‘Stores’ mark-up is 34.2% compared to a budget of 35.5% and a prior year of 33.7%. Clearly the budget mark-up was a challenge but the bulk of the absolute pounds variance is down to volume.

10. The impact of the additional ‘directs’ mark-up is the increased margin of £114k.

11. The extra rebates have contributed £389k to margin.

<u>Expenditure</u>

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EXPENDITURE						
EMPLOYEES						
Staff	7,453.8		8,015.0		7,333.0	
Agency/Contract	889.3		711.0		1,122.6	
Total	**8,343.1**		**8,726.0**		**8,455.7**	
OVERHEAD EXPENSES						
Transport	1,462.6		1,468.0		1,698.3	
Warehouse	1,298.4		1,343.1		1,408.0	
Commercial	926.8		967.5		950.7	
	3,687.9		**3,778.6**		**4,057.1**	
Finance and IT	647.4		690.2		666.2	
Directorate	77.6		26.4		110.6	
	725.0		**716.5**		**776.8**	
Total	**4,412.9**		**4,495.2**		**4,833.9**	
TOTAL EXPENDITURE	**12,756.0**	**19.8%**	**13,221.2**	**19.1%**	**13,289.6**	**20.2%**
As % of Total Sales Excluding Gas		**24.8%**		**24.5%**		**25.2%**

12. Total expenditure is £465k lower than budget principally driven by lower staff costs. The lower staff costs are principally down to reduced FTEs.

13. As we move to a more variable cost base in the warehouse agency costs are £178k adverse to budget. As vacancies are not filled, they are covered by agency staff.

14. Overhead expenses are £9k over budget principally down to tasking.

15. The key metric of overheads as a percentage of sales is improving year on year but due to the lower volume is 0.3% adverse to budget (excluding gas).

16. FTE numbers as at December 2015 are as follows:

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
EMPLOYEES NUMBERS (Full-time equivalents):			
Operations	187	194	197
Commercial	110	129	110
Finance, IT and Directorate	41	40	41
TOTAL EMPLOYEES	**337**	**364**	**348**

17. Managing sickness absence at ESPO continues to be a high priority with figures showing a slight decline for the financial year 2015/16 as follows:

- Quarter 1 – 12.25 days lost per FTE
- Quarter 2 – 12.03 days lost per FTE
- Quarter 3 – 11.69 days lost per FTE

18. Since the commencement of the new HR Business Partner and HR Advisor in July 2015, the actions taken to reduce sickness absence at ESPO includes:

- Correcting Oracle reporting lines and organisational structure in order that more detailed analysis could be undertaken to pinpoint where the potential high sickness levels occurred;

- Using all absence trigger events to follow up discussions with employees about their sickness absences, and using support plans as appropriate;

- Following data analysis highlighting that not all significant sickness absences hit trigger events, implementing processes to effectively manage attendance in line with the policy;

- The HR Advisor jointly managing all sickness absence cases with managers to ensure Attendance Management policy and procedures are being adhered and managed appropriately;

- Detailed sickness absence reports becoming a regular monthly agenda item at the Leadership Team meetings;

- The roll out of a bespoke ESPO 'Managing Attendance in the Workplace' for all line managers in December 2015 and January 2016;

- Additional administrative support at ESPO to assist with further analysis and carrying out more routine functions and to escalate cases to the HR Advisor as appropriate.

19. Since July 2015, the number of attendance management cases being managed at ESPO has increased considerably. Three employees have left the organisation due to 'ill health retirement'. Ten formal hearings have taken place or been scheduled with the following outcomes:

Outcome	Number of Staff
Final Written Warning	6
Dismissal	3
Pending (Early February)	1

20. While the current twelve-month rolling figure is at 11.69 days lost per FTE, we intend to hit the overall target of 7.5 days lost per FTE during 2016/17.

<u>Surplus</u>

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
TRADING SURPLUS	1,786.9	2.8%	1,860.8	2.7%	1,049.2	1.6%

21. Trading surplus is £74k behind budget and £737k ahead of last year.

22. The variance to last year is due to the following:

- £300k lower allocation to reserves (in line with MTFS plan)

- £204k additional overall margin
- £233k overhead savings

23. It remains the target and ambition to achieve the budgeted £3.3m surplus. As previously indicated this will be difficult and will require a strong ‘store’ sales and rebate performance in the final quarter.

Service Line

24. 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

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

26. Overall stock levels are £495k lower than at last year end reflecting improved stock optimisation processes. Stock availability remains over 98%.

27. Debtors are £822k lower than last year-end. Debtor days were 29.1 compared to 26.2 this time last year.

28. In December 2015, the dividend of £1.5m was paid to Members.

Resources Implications

29. None

Recommendation

30. The Subcommittee is asked to consider and comment on the contents of the report and the attached appendices.

Equal Opportunities Implications

31. None

Risk Assessment

32. 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