Agenda Item 6

ESPO

ESPO Management Committee – 21st June 2017

DRAFT OUT-TURN 2016-17

REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the draft outturn for 2016/17 with explanations for the more significant variances to prior year and budget. The trading environment that ESPO operates in continues to present significant challenges. Independent industry data from BESA suggests a contracting market that is likely to continue for the foreseeable future. Members should note that the outturn will be subject to external audit.

Background

2. The Management Committee are updated at each meeting on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy. There was no Finance and Audit Sub Committee in June 2017 due to the proximity to the Local Elections.

Financial Performance for 2016-17 compared to the MTFS and Prior Year

Sales

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	41,847.0		42,814.0		41,673.7	
DIRECT	18,213.7		20,198.5		19,274.3	
CATALOGUE ADVERTISING	875.6		955.0		904.2	
REBATE INCOME	6,049.7		6,108.0		6,108.2	
MISCELLANEOUS INCOME	284.3		170.0		124.3	
Total Sales Excluding Gas	**67,270.2**		**70,245.5**		**68,084.6**	

3. Total sales excluding gas are £67.3m compared to a budget of £70.3m and prior year £68.1m.

4. Store sales are £967k behind budget and £174k favourable to last year. The key area of decline has been in our non-education store sales, our education business is holding up

very well when compared to the BESA data. The positive variance to last year is explained by Easter falling in April 2017 which meant there was no school closure for Easter in 2016-17 which enhanced our sales. In 2017-18 there are two Easters closures during the financial year.

5. Direct sales are £1,985k behind budget. Once again the principal decline is in non-education, but also in the later part of the year the tightening in education budgets saw a decline in education direct sales.

6. Gas sales have performed as follows:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
GAS	14,375.0		25,359.6		20,469.6	

The reason for the fall in gas sales compared to the prior year is mild weather and reduced wholesale prices. Below is a comparison of kWh invoiced

- April – Dec '15: 494,936,385 kWh invoiced
- April – Dec '16: 420,148,741 kWh invoiced (-15%)

7. Additionally, the contract price of gas was reduced by, on average, 20% with effect from 1st April. The decrease in volume and gas prices does not however impact our margin which is a fixed price and based on number of meters which are 3,548 at December 16. Year on year there has been a net decrease of 4% principally down to Nottingham creating their own energy company. The impact on income has been offset by increasing per meter charges.

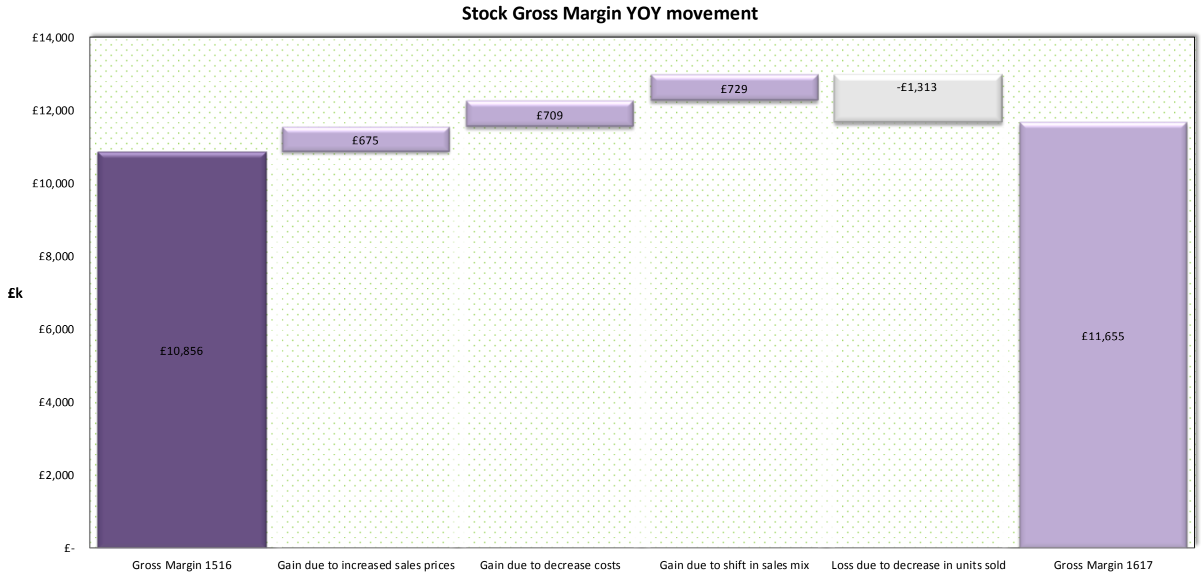
8. Rebates are £59k behind budget and £59k behind the prior year. The key framework contracts such as MSTAR continue to perform well but competition against this framework is growing.

9. Catalogue advertising is £80k down on budget and £29k down on the prior year.
10. **Margin**

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
STORES	11,713.1	38.9%	11,195.3	35.4%	10,703.5	34.6%
DIRECT	2,334.3	14.7%	2,580.7	14.6%	2,370.0	14.0%
GAS	389.4	2.8%	364.6	1.5%	311.5	1.5%
CATALOGUE ADVERTISING	875.6		955.0		904.2	
REBATE INCOME	6,049.7		6,108.0		6,108.2	
MISCELLANEOUS INCOME	284.3		170.0		124.3	
TOTAL MARGIN	**21,646.2**		**21,373.6**		**20,521.7**	

11. Overall margin is £273k ahead of budget principally down to higher stores margin.

12. A detailed analysis of the movement on stores margin is included below:



13. Directs mark-up is 14.7% compared to a budget of 14.6% and a prior year of 14.0%. The reasons being improved pricing and lower non recoverable one sided costs.

14. Miscellaneous income is higher than budget due to the sale of fixed assets surplus to requirements, MOV income and higher cash balances throughout the year.

Expenditure

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EXPENDITURE						
EMPLOYEES						
Staff	10,126.6		10,506.4		9,937.8	
Agency/Contract	1,125.2		1,177.1		1,098.2	
Total	**11,251.7**		**11,683.5**		**11,036.0**	
OVERHEAD EXPENSES						
Transport	1,850.8		1,829.1		1,898.9	
Warehouse	1,787.6		1,693.4		1,841.1	
Commercial	1,076.4		1,157.0		1,074.1	
	4,714.9		**4,679.5**		**4,814.1**	
Finance and IT	1,191.6		984.7		1,136.2	
Directorate	247.0		139.8		188.2	
	1,438.6		**1,124.5**		**1,324.3**	
Total	**6,153.5**		**5,804.0**		**6,138.4**	
TOTAL EXPENDITURE	**17,405.2**	**21.3%**	**17,487.5**	**18.3%**	**17,174.5**	**19.4%**
As % of Total Sales Excluding Gas		**25.9%**		**24.9%**		**25.2%**

15. Total expenditure is £82k lower than budget principally driven by lower staff costs. The lower staff costs are principally down to reduced FTE's.

16. Overhead expenses are £349k higher than budget driven by higher HR recharges absorbed in Directorate, dual running of Energy Systems (not budgeted), additional IT renewal provisions and warehouse consultancy costs investigating automation options.

17. The key metric of overheads as a percentage of sales is 1.0% adverse to budget (excluding gas).

FTE numbers are as follows

COMBINED PRELIMINARY RESULTS	YEAR TO DATE ACTUAL	YEAR TO DATE BUDGET	YEAR TO DATE PRIOR YEAR
EMPLOYEES NUMBERS (Full-time equivalents):			
Operations	169		185
Commercial	115		111
Finance, IT and Directorate	40		41
TOTAL EMPLOYEES	**324**		**338**

18. The total number of employees has thus fallen by 14 year on year. This reflects the increased competition from the private sector for the skilled staff in ESPO, generally leaving for higher salaries. The above is the year to date average figure. The actual FTE at the end of December was 313.

Surplus

COMBINED PRELIMINARY RESULTS	YEAR TO DATE ACTUAL		YEAR TO DATE BUDGET		YEAR TO DATE PRIOR YEAR	
	£000	%	£000	%	£000	%
TRADING SURPLUS	**4,241.0**	**5.2%**	**3,886.2**	**4.1%**	**3,347.2**	**3.8%**

19. Trading surplus is £355k ahead of budget.

20. The variance to budget is due to the following

- £273k favourable overall margin
- £82k overhead savings

21. At this level of out-turn clearly we can start the year cautiously optimistic about achieving the budget surplus for 2017-18. We know sales will be under some pressure as a result of market pressure and the impact of two Easters but this has been budgeted for.

22. As agreed the extra surplus over and above the budget of £355k will be earmarked as a reserve towards the warehouse mechanisation programme.

23. The overall allocation of the surplus compared to the prior year is as follows:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE			
	ACTUAL		PRIOR YEAR	
	£000	%	£000	%
TRADING SURPLUS	4,241.0	5.2%	3,347.2	3.8%
Allocation to Warehouse Automation	355		0	
Building Provision	400		400	
General Fund	697		589	
Dividend	2,789		2,358	

This represents an 18% increase in our dividend to our owner's year on year.

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 £509k higher than at last year end. This is principally a result of a new trading agreement with NUCO to manage the supply of exercise books from China. To ensure smoothness of supply stocks are now held in a warehouse at Felixstowe and called off as required for the warehouse in Enderby. This stock is owned by ESPO and was physically counted at year end. Stock availability remains over 98%.

27. Debtors are £317k lower than last year-end.

28. In December 2016 the dividend of £2.4m was paid to Members.

ESPO Balances

29. 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 2016/17, £0.7m 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 attained according to the approved funding formula; this is not expected to be reached during the period of the current MTFS.

30. A breakdown of reserves as at 31 March 2017 is as follows:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE	
	ACTUAL	PRIOR YEAR
	£000	£000
ESPO Balances		
Strategic Review	0	400
Property Replacement	2,541	2,241
Warehouse Automation	2,500	0
Total Renewals Reserve	1,627	3,172
Total Cash Reserves	6,668	5,813
General Fund	4,325	4,225
Total Usable Reserves	10,993	10,038

31. Elsewhere on this agenda there is a paper detailing the creation of a £2.5m fund for the warehouse automation from current reserves subject to Member approval.

Resources Implications

32. None

Recommendation

33. The Management Committee is asked to consider and comment on the contents of the report and the attached appendices.

Equal Opportunities Implications

34. None

Risk Assessment

35. 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

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