ESPO

MANAGEMENT COMMITTEE – 28 FEBRUARY 2018

MTFS MONITORING FOR THE FIRST 9 MONTHS OF 2017-18

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 2017 as per the management accounts with explanations for the more significant variances to budget.

Background

2. The Management Committee 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 9 Months of 2017-18 compared to the MTFS.

Sales

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	32,286.0		32,557.9		32,384.8	
DIRECT	13,141.6		14,733.0		13,955.1	
GAS	8,281.1		9,601.3		9,506.2	
CATALOGUE ADVERTISING	806.0		854.6		798.6	
REBATE INCOME	4,019.3		3,475.0		3,475.4	
MISCELLANEOUS INCOME	80.6		163.7		163.7	
TOTAL SALES	**58,614.6**		**61,385.5**		**60,283.8**	

3. Total sales at £58.6m are £2.8m behind budget of £61.4m down to lower gas sales which are showing a negative variance of £1.2m and Directs which are down £1.6m. Gas is due to lower wholesale prices, the benefit of which has been passed on to our customers. The impact on profit is negligible as ESPO's income is derived from a fixed charge per meter

4. Store sales are £300k behind budget and £100k adverse compared to last year. The key area of decline has been in our non-education store sales, our education business is holding up

well compared to the BESA data.

5. Direct sales are £1.6m behind budget. Once again the principal decline is in non-education.

6. Rebates are £544k ahead of budget and last year. The key framework contracts such as MSTAR continue to perform strongly. The growth is down to better enforcement and data collection.

7. Catalogue advertising is £48k down on budget and £8k up on the prior year.

Margin

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
STORES	8,895.5	38.0%	8,864.2	37.4%	8,814.9	37.4%
DIRECT	1,739.8	15.3%	1,984.5	15.6%	1,828.2	15.1%
GAS	275.0	3.4%	272.4	2.9%	262.0	2.8%
CATALOGUE ADVERTISING	806.0		854.6		798.6	
REBATE INCOME	4,019.3		3,475.0		3,475.4	
MISCELLANEOUS INCOME	80.6		163.7		163.7	
TOTAL MARGIN	**15,816.3**		**15,614.4**		**15,343.0**	

8. Overall margin is £202k above budget. This is due to slightly higher gross margins and higher rebates.

9. Stores mark-up is 38.0% compared to a budget of 37.4% and a prior year of 37.4%. The reasons being, lower discounting, lower consumable costs and higher prices.

Expenditure

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EXPENDITURE						
EMPLOYEES						
Staff	7,535.1		7,918.5		7,670.9	
Agency/Contract	939.9		873.4		886.4	
Total	**8,475.0**		**8,791.9**		**8,557.4**	
OVERHEAD EXPENSES						
Transport	1,359.1		1,370.4		1,377.0	
Warehouse	1,493.4		1,495.2		1,636.5	
Commercial	609.8		679.6		611.4	
	3,462.3		**3,545.2**		**3,624.9**	
Finance and IT	797.7		759.4		702.8	
Directorate	327.3		318.1		177.3	
	1,125.0		**1,077.5**		**880.2**	
Total	**4,587.4**		**4,622.8**		**4,505.1**	
TOTAL EXPENDITURE	**13,062.4**	**22.3%**	**13,414.7**	**21.9%**	**13,062.4**	**21.7%**
As % of Total Sales Excluding Gas		**26.0%**		**25.9%**		**25.7%**

10. Total expenditure is £352k lower than budget mainly driven by lower staff costs and a reduction in FTE’s.

11. Overhead expenses are £35k better than budget down to lower warehouse and commercial costs.

12. The key metric of overheads as a percentage of sales is 0.1% adverse to budget (excluding gas).

FTE numbers are as follows

COMBINED PRELIMINARY RESULTS	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
EMPLOYEES NUMBERS (Full-time equivalents):			
Operations	154		172
Commercial	115		115
Finance, IT and Directorate	40		40
TOTAL EMPLOYEES	**309**		**327**

13. The total number of employees has thus fallen by 18 year on year. This reflects the increased competition from the private sector for the skilled staff in ESPO, generally leaving for higher salaries and vacancies in the warehouse, procurement and commercial departments.

Surplus

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
TRADING SURPLUS	**2,753.9**	**4.7%**	**2,199.7**	**3.6%**	**2,280.6**	**3.8%**

14. Trading surplus is £554k ahead of budget and £473k ahead of last year.

15. The variance to budget is due to the following

    - £202k higher overall margin
    - £352k overhead savings

16. At this point we can be optimistic about achieving the £4.2m budget surplus forecast in the MTFS and expect the surplus to be in the range of £4.2-£4.5m. We are however only 9 months in to the year. The phasing of our surplus is historically back end loaded as that is when the majority of our rebates is collected.

Service Line

17. 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

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

19. Overall stock levels are £92k lower than at last year end. Stock availability remains over 98%.

20. Debtors are £32k lower than last year-end. This is completely seasonal and in line with prior years.

21. In December 2017 the dividend of £2.8m was paid to Members.

Resources Implications

22. None

Recommendation

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

Equal Opportunities Implications

24. None

Risk Assessment

25. None identified

Officers to Contact

Mr K Smith – Director (Tel: 0116 265 7931)
Mr C Tambini – Treasurer to the Consortium (Tel: 0116 305 7831)

Appendices

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

This page is intentionally left blank