MANAGEMENT COMMITTEE – 13 JUNE 2018

DRAFT OUTTURN 2017/18

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. The purpose of this report is to update the Management Committee on the 2017/18 financial outturn compared to budget.

Background

2. The trading environment that ESPO operates in continues to present significant challenges. Independent industry data from BESA suggests a contracting stores market that is likely to continue for the foreseeable future as funding challenges remain. Members should note that the outturn will be subject to external audit.

3. In February 2018 the Management Committee received a report giving guidance that the forecast out turn for 2017-18 would be in the range of £4.2m to £4.5m. This would represent the achievement of the budgeted surplus target of 4.2m and the successful achievement of year 2 of our 4 year medium term financial strategy.

4. This report was considered in detail by two members of the Finance and Audit Sub Committee in May 2018.

Review of Forecast Outturn 2017/18 Compared to Budget

5. Subsequent to the Management Committee meeting in February the trading environment tightened due to a mixture of weather challenges disrupting deliveries to schools, school closures, and clear budget challenges amongst the multi academy trusts. This has resulted in the draft out turn being at the lower end of the signalled range of surplus of £4.2m to £4.5m and settling at £4.3m. This still represents a record year for ESPO and achievement of our budget for the year but highlights the challenges that ESPO faces in this market. A summary P&L is presented below:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
TOTAL SALES	80,110.9		85,032.1		81,645.2	
TOTAL MARGIN	21,587.2		21,949.1		21,646.2	
TOTAL EXPENDITURE	17,279.1	21.6%	17,749.1	20.9%	17,405.2	21.3%
As % of Total Sales Excluding Gas		26.1%		25.8%		25.9%
TRADING SURPLUS	4,308.1	5.4%	4,200.0	4.9%	4,241.0	5.2%

6. A breakdown of the draft outturn Sales for 2017/18 compared to budget and last year is shown below:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	41,441.3		42,395.5		41,847.0	
DIRECT	17,156.1		19,188.6		18,213.7	
GAS	13,887.4		16,105.6		14,375.0	
CATALOGUE ADVERTISING	915.8		1,021.9		875.6	
REBATE INCOME	6,608.2		6,100.0		6,049.7	
MISCELLANEOUS INCOME	102.1		220.5		284.3	
TOTAL SALES	80,110.9		85,032.1		81,645.2	

7. Store sales are £954k down against budget reflecting the tightening market conditions experienced towards the back end of the financial year. Direct sales are £2,032k down on budget. This is due to delayed purchases at schools linked to budget pressures at the MATS and other educational establishments.

8. Total Rebates are at £6.6m, and as such are £500k ahead of budget reflecting the strong performance of our frameworks and improved marketing.

Gross Margin

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
Margin						
STORES	11,377.9	37.8%	11,675.3	38.0%	11,713.1	38.9%
DIRECT	2,229.3	14.9%	2,569.8	15.5%	2,334.3	14.7%
GAS	353.9	2.6%	361.6	2.3%	389.4	2.8%
CATALOGUE ADVERTISING	915.8		1,021.9		875.6	
REBATE INCOME	6,608.2		6,100.0		6,049.7	
MISCELLANEOUS INCOME	102.1		220.5		284.3	
TOTAL MARGIN	**21,587.2**		**21,949.1**		**21,646.2**	

9. Total gross margin is £362k below budget reflecting the lower than budget sales overall for the year. Our margin percentages are only fractionally down on budget despite the Brexit challenges and the inevitable marketing and promotional activity undertaken to support our sales. The improved performance on rebates helped to offset a slightly lower than budget Catalogue Advertising income, though it was up on last year. Miscellaneous income is lower due to reduced asset sales and lower income from minimum order value as our customers adapted to the policy.

Expenditure

10. A breakdown of Total Expenditure for 2017/18 compared to budget is shown below:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EXPENDITURE						
EMPLOYEES						
Staff	10,025.6		10,571.2		10,126.6	
Agency/Contract	1,208.2		1,123.5		1,125.2	
Total	**11,233.8**		**11,694.7**		**11,251.7**	
OVERHEAD EXPENSES						
Transport	1,821.5		1,826.7		1,850.8	
Warehouse	1,951.7		1,911.4		1,787.6	
Commercial	828.0		868.5		1,076.4	
	4,601.2		**4,606.7**		**4,714.9**	
Marketing	0.0		0.0		0.0	
Finance and IT	972.8		1,021.5		1,191.6	
Directorate	471.3		426.3		247.0	
	1,444.2		**1,447.7**		**1,438.6**	
Total	**6,045.3**		**6,054.4**		**6,153.5**	
TOTAL EXPENDITURE	**17,279.1**	**21.6%**	**17,749.1**	**20.9%**	**17,405.2**	**21.3%**
As % of Total Sales Excluding Gas		**26.1%**		**25.8%**		**25.9%**

11. Overheads as a percentage of sales excluding gas are 26.1%, 0.2% worse than budget.

12. Total expenditure is below budget by £470k driven mainly by vacancies and lower than budget headcount.

13. Total staff costs are £461k below budget reflecting vacancies, a number of senior staff leaving and difficulties in recruitment.

14. Directorate costs are over budget due to increased recruitment costs.

15. Finance and IT incurred additional audit costs relating to the adoption of the Pension Deficit in the statutory accounts. This was offset by savings in IT costs.

Surplus

16. The draft outturn surplus is thus in the range of £4.2m to £4.5m indicated at the Management Committee in February. Clearly market conditions are tightening and continued surplus growth will depend on the success of ESPO Trading Ltd and acquisitions.

17. The draft outturn surplus is detailed below:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
TRADING SURPLUS	4,308.1	5.4%	4,200.0	4.9%	4,241.0	5.2%

Reserves

18. ESPO has sufficient earmarked reserves to cover known longer term commitments such as vehicle replacement and property maintenance. We also have a general reserve that is used as working capital but would be available to fund costs associated with unexpected events.

	2017-18 (Outturn)	MTFS 2018-19	MTFS 2019-20	MTFS 2020-21	MTFS 2021-22
Movement on Reserves £000					
General Fund					
Opening Balance	4,325	5,153	6,005	6,922	7,945
Surplus	828	852	917	1,023	1,139
Allocations	-				
Closing Balance	5,153	6,005	6,922	7,945	9,084
Earmarked Funds					
Opening Balance	4,290	4,640	3,959	3,709	3,459
Surplus	550	550	550	550	550
Allocations	200	1,231	800	800	800
Closing Balance	4,640	3,959	3,709	3,459	3,209
Efficiency and Automation					
Opening Balance	2,500	2,500	2,500	2,500	2,500
Surplus					
Allocations					
Closing Balance	2,500	2,500	2,500	2,500	2,500
Total Reserves					
Opening Balance	**11,115**	**12,293**	**12,464**	**13,131**	**13,904**
Closing Balance	**12,293**	**12,464**	**13,131**	**13,904**	**14,793**

19. In the appendix is a detailed Balance Sheet, Cash Flow and Service Line Analysis. Our key working capital ratios remain strong and ESPO is cash generative. The Service Line Analysis shows all divisions are profitable. The appendix also includes details of our capital spend versus budget in 2017/18 which was under budget. This has been carried forward in to our capital budget for 2018/19 to ensure our infrastructure remains in good order.

Recommendation

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

Equal Opportunities Implications

21. None

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Appendix:

Balance Sheet, Service Line Analysis and Capital Analysis