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ESPO MANAGEMENT COMMITTEE – 24 JUNE 2011

AGENDA ITEM NO. 9

JOINT REPORT OF THE INTERIM DIRECTOR AND CONSORTIUM TREASURER

OUTTURN 2010/11

Introduction

1. This report sets out the outturn for 2010/11 with explanations for the more significant variances. Members should note that the outturn will be subject to external audit.

Trading Summary

2. The effect of spending restrictions imposed on local authorities following the recession initially indicated a major challenge for ESPO in 2010/11 to continue the growth achieved in previous years both in catalogue products and period contracts. The benefit of prior years' growth in Stores sales was that ESPO was able to partially absorb the effects of inflationary increases at the start of 2010/11. This was expected to assist in attracting further growth and was successful in that Stores sales volume has increased this year by 1.5%, after allowing for price inflation. The higher-value Directs catalogue products (mainly furniture, furnishings and fittings) suffered from the effects of spending cuts and turnover reduced by 7%.

3. The spending restrictions provided an opportunity for ESPO to provide additional support for customer authorities in assisting them to achieve improved use of their resources. The resulting use of period contracts increased to £336 million which has translated into increased rebate and consultancy incomes.

4. Spending restrictions also applied to ESPO operating expenses and employee costs. Pay rates remained unchanged and employee costs were only marginally higher (0.5%) than in 2009/10. Other overhead expenditure was carefully controlled with the end result of a reduction from the prior year spending level of 9% (£0.57 million).

5. A further major factor on the year's results has been a change in accounting for rebate income following a recommendation from our external auditors. As

a result ESPO now accrues for rebates that are received after the financial year end where these relate solely to that financial year. For 2010/11 this has resulted in additional income of £0.70 million that would previously been included in the subsequent year's results. This change in a one-off adjustment and should have nil or minimal effect on future years reported rebate income.

6. Overall the organisation's invoiced turnover for the year was £86.5 million. This was 3% lower than the prior year which was primarily the effect of lower energy prices and was not a reduction in contracted volumes. Although the resulting value of gas sales reduced by £3.9 million, rebate income contribution from energy contracts rose by £0.37 million resulting from increased use of other energy direct supply contracts.

7. The Net Surplus for the year was £3.09 million which is a higher value than achieved in any prior years. Once the one-off accounting rebate adjustment is subtracted the resulting surplus is £2.39 million which represents a growth of 60% over the previous year's net surplus.

8. The attached appendices summarise the outturn for 2010/11 and provide comparison with the Forecast Outturn (as reported to the Management Committee on 25 March 2011) and to the results for the prior year. Details of variations from the Forecast Outturn are explained below where these have a significant impact on the operating surplus. An explanation is also included of changes in Service Lines income and expenditure compared to the Forecast Outturn, contained under Item 18 (Exempt Report) elsewhere on this agenda.

9. The draft Statement of Accounts for 2010/11 is the subject of a separate report to the Management Committee for approval elsewhere on the agenda for this meeting under Item 10.

Outturn 2010-11

Income:

10. The total income for the whole organisation for the year was £18.09 million. This is a 6.2% (£1.06 million) increase over the prior year and a 3% increase over the Forecast Outturn.

11. The resulting income on service lines is a £1.15 million increase over the prior year. This growth is not solely the result of a change in rebate accounting which amounted to £0.70 million of the increase. There is also a growth in the underlying annual contracts income of 22% over 2009/10 resulting from growth in both existing contracts and in additional income from new contracts. This is also reflected in the contracts turnover values included in the Interim Director's Report to this meeting.

12. The other noticeable increase in income on the Stores service line of £0.1 million results from higher sales during the last quarter of the year. The

Forecast Outturn assumed that sales would be at budgeted levels during this period.

Expenditure:

13. The total expenditure for the year was £15.01 million. This is virtually the same amount as forecast in March and is £0.54 million lower than 2009/10. Expenditure directly attributed to service lines is £14.11 million which is 0.4% lower than forecast.

14. There are no significant changes from forecast within individual service lines although there are a number of significant variations by expenditure category as shown on the traditional management Trading Account. These are explained as follows:

- Transport – Renewals Fund Contribution (increase of £0.05 million or 18%). The number of vehicles in the ESPO delivery fleet has increased over the last two years from 43 to 50 to provide for a more frequent delivery service and to meet increased demand. The amounts required to fund replacement vehicles has also been re-assessed and has increased by a similar proportion.

- Provision for Bad Debts (increase of £0.02 million or 240%). This reflects an increase in precautionary provisions for debts overdue in excess of six months (total value of £0.05 million) rather than for losses from receiverships.

- Consultancy and Professional Fees (decrease of -£0.05 million or -21%). This saving relates to an estimated spend that was included in the Forecast Outturn for legal fees of £0.07 million in 2010/11 relating to a legal claim on a design and marketing contract.

Operating Surplus

15. The surplus attributed to service lines increased by £0.6 million from forecast to a total of £3.99 million. This is an increase of 47% over the operating surplus for the prior year. As a result of the additional growth in rebate income, Framework Contracts service line increased its operating surplus by £0.32 million to become the highest generator of income at £1.64 million. This change also increased the operating surplus on Energy and Fuels service line by £0.11 million. Increase Stores sales volume and lower overhead costs increased this service line income by £0.13 million.

Allocations from Operating Surplus

16. The allocations from 2010-11 Operating Surplus that were approved by the Management Committee in March totalling £1.47 million are as follows:

- Warehouse efficiency project £0.45 million
- Reserve for legal claim £0.50 million

- Pay harmonisation reserve   £0.52 million

17. It is proposed that a further allocation of £0.40 million is used for implementing the recommendations of the Strategic Review undertaken by Deloitte.

Distribution of Surplus:

18. The amount available for distribution after the above allocations to reserves is £1.2 million of which 80% (£0.97 million) is attributable to member authorities as a dividend. Following a decision by the Management Committee earlier in 2010/11, the dividend for 2009/10 of £0.79 million has not been distributed to member authorities. These amounts are retained in Members' Reserves pending a decision on distribution.

19. The dividend entitlement for each member authority is calculated based on their use of ESPO services, as follows:

	2009/10	**2010/11**	**Total**
	Pending Distribution £	**Proposed Distribution £**	**Combined Distribution**
Cambridgeshire	114,230	134,739	248,969
Leicester City	93,321	154,417	247,738
Leicestershire	123,286	194,319	317,605
Lincolnshire	155,837	128,597	284,434
Norfolk	163,862	219,872	383,734
Peterborough	34,864	36,513	71,377
Warwickshire	104,650	105,623	210,273
Total	**790,050**	**974,080**	**1,764,130**

ESPO Balances

20. 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 2.5% of turnover. For 2010/11 £0.24 million 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 retained according to the approved funding formula as explained below.

21. Applying the formula to current invoiced turnover, the maximum holding would amount to £2.16 million which is calculated as 2.5% of the turnover value for 2010-11, as follows:-

	Actual Year 2009/10 £'000	Actual Year 2010/11 £'000
Stores trading	35.7	37.2
Catalogue Direct orders	20.0	18.4
Energy Invoicable Sales	28.6	24.7
Other Income	4.8	6.2
	89.1	**86.5**

22. The actual value of the General Fund at 31 March 2011 amounts to £2.14 million which is £0.02 million below the maximum level and is a significant increase of approximately 12% on 2009/10 levels reflecting the improved trading surplus. Should the General Fund prove to be insufficient to support the business requirements in any year, ESPO have agreed temporary informal borrowing arrangements from Leicestershire County Council.

23. The main cash reserves held by the Authority are set out below:

	31/03/11 Actual £'000	31/03/10 Actual £'000
General Fund	2,137	1,893
Earmarked Project Reserves	625	269
Vehicles and Equipment Reserve	1,553	1,324
Stores Maintenance Reserve	188	192
Earmarked Pay Harmonisation	520	0
Earmarked Legal Claim	500	0
Earmarked Review Implementation	400	0
Total	**5,923**	**3,678**

<u>Supplementary Information Informing the Outturn Report</u>

24. Further information of a commercially sensitive nature which informs this report is contained under **Item 18 (Exempt Report),** on the agenda for this meeting.

<u>Recommendations:</u>

25. The Management Committee is asked to:-

(a) Approve the draft outturn for 2010/11.

(b) Approve the allocation of the surplus for 2010/11 including the reserve of £0.4 million for the implementation of the Strategic Review.

Reason for Recommendation

26. The Management Committee approval to the Outturn Report and related Management Accounts and Service Line Reporting is required as they directly relate to the Statement of Accounts.

Equal Opportunities Implications

27. None have been identified.

Background Papers

Joint Report of the Interim Director and Consortium Treasurer of 25 March 2011 entitled "Revised Estimate 2010/11 and Budget 2011/12".

Joint Report of the Interim Director and Consortium Treasurer of 24 June 2011 entitled "Statement of Accounts 2010/11".

The Interim Director's Annual Report of 24 June 2011 entitled "ESPO Annual Report 2010/11".

Officers to contact:

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Appendix

1. ESPO Management Accounts for year ended 31st March 2011