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ESPO MANAGEMENT COMMITTEE – 25 JUNE 2012

AGENDA ITEM NO. 8

DRAFT OUTTURN 2011/12

JOINT REPORT OF THE CONSORTIUM TREASURER AND INTERIM DIRECTOR

Introduction

1. This report sets out the draft outturn for 2011/12 with explanations for the more significant variances. Members should note that the outturn will be subject to external audit.

Trading Summary

Income

2. The effect of the spending restrictions imposed on local authorities following the recession initially indicated a major challenge for ESPO in 2011/12. In addition it was unknown how the transfer of schools from Local Authority control to Academy status would impact the organisation. In this fluid and changing environment ESPO has continued to perform well.

3. Stores' sales value has increased this year by £661k (1.8%) to £37.7m. Sales to member authorities have fallen by 8%, while sales to school academies and other authorities have increased by 10%.

4. The volume impact was a reduction of £472k but this was offset by price inflation of £1,133k (3.10%) giving a net increase of £661k.

5. As a result of the Department of Education Phonics initiative which was launched in September 2011 the higher-value Directs catalogue products business increased by 19.5% to £21.96m. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium. The total order value for Phonics for ESPO including matched funding was £4,499k.

6. Rebate income was £4.77m an increase of 8% on the prior year once the impact of the £0.7m one off accounting adjustment last year is taken out. This has been achieved while continuing to reduce rebate margin from our suppliers.

7. 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 £535m (2011: £336m) million which has translated into increased rebate and consultancy incomes.

8. Overall the organisation's invoiced turnover for the year was £86.3 million. This was 0.2% lower than the prior year which was primarily due to the effect of lower gas usage from customers as a result of the warmer than average winter and increased carbon footprint awareness. The resulting value of gas sales reduced by £3.1 million and this impacted the Gas margin which reduced to £306k from £445k in the prior year.

Expenditure

9. Spending restrictions also applied to ESPO operating expenses and employee costs. Pay rates remained unchanged and employee costs were lower (£110k) than in 20010//11. Other overhead expenditure increased by £228k on the prior year mainly as a result of higher transportation costs (£159k) caused by increases in fuel prices. In September 2011 forty individual projects were launched to reduce costs and drive efficiencies throughout the organisation. The savings from these efficiencies will begin to have an impact in 2012/13 but individual initiatives such as warehouse lighting detectors (annual saving £20k) and picking systems (annual savings £230k) are either fully or partially installed already. The progress on these initiatives will be included in the monthly reporting for ESPO and is expected to be communicated to members on a quarterly basis.

Summary

10. The Net Surplus for the year was £2.6 million which is £0.2m (11%) higher than achieved in any prior year once the one-off accounting rebate adjustment is subtracted from the surplus in 2010/11 of £3.08m which was worth £0.7m.

11. The draft Management Accounts for the year ended 31 March 2012 are attached as an Appendix.

12. Further information which informs the Draft Outturn 2011/12, of a commercially sensitive nature, is contained in Item 15 (Exempt Report I), elsewhere on the agenda, this includes:

- Detailed Breakdown of the year on year sales movement
- Detailed Breakdown of Overhead Expenditure
- Analysis by Service Lines
- Detailed Balance Sheet
- Staffing Analysis
- Analysis of Reserves with potential cash flows

13. Details of variations from the Forecast Outturn are explained below where these have a significant impact on the operating surplus.

<u>Outturn 2011/12: Service line Analysis – Comparison to the prior year and the March 2012 Forecast Outturn for 2011/12</u>

<u>Income:</u>

14. The total income after deducting stores and cost of sales for the whole organisation for the year was £17.8 million. This is a 1.56% (£0.3 million) decrease over the prior year which included a £0.7m one off rebate adjustment. By excluding this one off adjustment then total income increased by £0.4m (2.4%) over the prior year and a £0.9m (5.0%) increase over the Forecast Outturn (£16.9m).

15. The most significant change from the Service Lines Forecast Outturn is the increased turnover in Directs attributable to the Phonics Department of Education initiative. Sales in Directs were £19.6m compared to forecast of £16.8m, an increase of 16%. This contributed an additional £0.2m to income.

16. Energy and Fuels rebate income increased by £0.2m over the forecast out turn with no impact on cost of sales thus increasing income by £0.2m.

17. The Commensura rebate (£0.2m) has been allocated to Consulting (SPAC), which is a change to the previous method of allocation when it was allocated to Framework Contracts.

18. The other noticeable increase in income is on Framework Contracts (after allowing for the above Commensura adjustment) where an additional £0.1m was generated on rebates compared to the forecasted outturn for 2011-12.

19. The final key difference is on Stores where additional sales of £0.8m contributed to additional income of £0.2m.

<u>Expenditure:</u>

20. The total expenditure for the year was £15.1 million. This is virtually the same amount as forecast in March and £0.1 million higher than 2010/11.

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

    - <u>Transport – Renewals Fund Contribution (increase of £0.05 million or 13.8%).</u> The number of vehicles in the ESPO delivery fleet has increased over the last two years 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 further contributed to the increase in the fund contribution.

    - <u>Provision for Bad Debts (increase of £0.05 million or 240%).</u> This reflects an increase in precautionary provisions for debts overdue in excess of six months (total value of £0.08 million) rather than for losses from receiverships. A more robust approach to bad debt management has been adopted with trending and targets implemented to ensure our working capital cycle remains robust.

Operating Surplus

22. The surplus attributed to service lines was £3.6 million. This is an increase of 9% over the operating surplus for the prior year (£3.3m after allowing for the £0.7m one off accounting adjustment). This is as a result of the additional growth in rebate income and the additional on-cost from the Phonics initiative.

Allocations from Operating Surplus

23. The Management Committee at its meeting in March approved an additional spend of £0.1m on the Warehouse efficiency project to be met from the 2010/11 operating surplus.

24. It is proposed that a further allocation of £0.4million is used for the Building Capital Provision. It is also proposed that the level of capital provision is reviewed annually to ensure sufficient funds are set aside for the replacement costs of the buildings. The provision is necessary to ensure the building is maintained at the highest possible standard with funds allocated and available to meet both general repairs and capital replacements/ improvements.

Distribution of Surplus:

25. The amount available for distribution after the above allocations to reserves is £2.16 million of which 80% (£1.73 million) is attributable to member authorities as a dividend. Following a decision by the Management Committee earlier in 2010/11, the dividend for 2010/11 of £0.97million has not been distributed to member authorities. In addition the dividend for 2009/10 of £0.79m has also not been distributed to member authorities. These amounts are retained in Members' Provision pending a decision on distribution.

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

£

	2011-12 Proposed Distribution	2010-11 Pending Distribution	2009-10 Pending Distribution	Total
Cambridgeshire	236,758	134,739	114,230	485,727
Leicester City	255,920	154,417	93,321	503,658
Leicestershire	322,185	194,319	123,286	639,790
Lincolnshire	246,387	128,597	155,837	530,821
Norfolk	379,049	219,872	163,862	762,783
Peterborough City	73,463	36,513	34,864	144,840
Warwickshire	213,812	105,623	104,650	424,085
Total	1,727,574	974,080	790,050	3,491,704

ESPO Balances

27. 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 2011/12 £0.43million 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.

28. Applying the current formula to invoiced turnover, the maximum holding would amount to £2.16 million which is calculated as 2.5% of the turnover of £86.3m.

29. The actual value of the General Fund at 31 March 2012 amounts to £2.57million which is £0.41 million above the maximum level and is a significant increase of approximately 20% on 2010/11 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. It is recommended that the maximum holding of the General Fund is increased to 5% to allow for any future adverse trading conditions.

Movements on Reserves

Reserves have moved as follows:

Opening Balance	£5,923
I&E Contribution	£554
Charges against funds	(£817)
Interest	£4
Transfers from Surplus	£932
Closing Balance	£6,596

The charges of £817,000 met from revenue against Reserves can be broken down as follows:

- Indigo new warehouse project £500k
- New vehicles £198k
- IT upgrades from Infor £113k
- LED Eco lights £6k

Consideration by the Finance Subcommittee

30. The Finance Subcommittee considered the Draft Outturn 2011/12 at its meeting on 14 June 2012 and its comments will be reported back to this meeting.

Supplementary Information Informing the Outturn Report

31. The further information of a commercially sensitive nature which informs this report is contained under **Item 15 (Exempt Report),** on the agenda for this meeting.

Recommendations

32. The Management Committee is recommended to:-

(a) note the Draft Outturn for 2011/12.

(b) approve an allocation of the operating surplus for 2011/12, as detailed in paragraph 24 of this report, including the reserve of £0.4 million for the Building Capital Provision and agree for the level of capital provision required to be reviewed annually as part of the process for agreeing the budget.

(c) approve an increase in the maximum level of the General Fund to 5%.

(d) approve the payment of dividends for 2009/10, 2010/11 and 2011/12 to member authorities totalling £3.5m.

Reason for Recommendations

33. Management Committee approval to the Outturn Report, and related Management Accounts and Service Line Reporting (of a commercially sensitive nature elsewhere on the agenda for this meeting) is required as they directly relate to the Statement of Accounts.

Equal Opportunities Implications

34. None have been identified.

Background Papers

Joint Report of the Interim Director and Consortium Treasurer of 2 March 2012 entitled “Revised Estimate 2011/12 and Budget 2011/12”.

Officers to Contact

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Mr B Roberts –Consortium Treasurer (Tel: 0116 305 7831)

List of Appendices

Appendix – Draft ESPO Management Accounts for Year End 31 March 2012

APPENDIX

DRAFT ESPO MANAGEMENT ACCOUNTS FOR YEAR ENDED 31st MARCH 2012

PRIOR YEAR ACTUAL £000		2011-2012 ORIGINAL BUDGET £000	2011-2012 REVISED FORECAST £000	2011-2012 ACTUAL £000
	INCOME			
37,019	Stores Sales	37,572	36,920	37,680
27,982	Less Stores Cost of Sales	28,633	28,058	28,604
9,037	STORES TRADING SURPLUS	8,939	8,862	9,076
32.3%		31.2%	31.6%	31.7%
5,094	Rebates from Suppliers	3,941	4,335	4,775
2,195	Margin on Direct Orders	2,229	2,027	2,166
923	Catalogue Advertising	898	907	906
169	Other Income	108	172	234
676	Major Projects Income	498	668	659
9,057	CUSTOMER & CLIENT RECEIPTS	7,674	8,109	8,740
18,094	TOTAL INCOME	16,613	16,971	17,816
	EXPENDITURE			
	EMPLOYEES			
7,722	Salaries & Wages	7,983	7,648	7,617
495	National Insurance	519	479	476
1,000	Superannuation	1,126	1,053	1,034
9,217		9,628	9,180	9,127
	OTHER EMPLOYEE EXPENSES			
46	Staff Training	102	51	51
4	Staff Advertising	34	87	36
33	Additional Pension Costs	33	29	34
38	Other Allowances & Payments	40	34	32
37	Insurance	61	61	60
	PREMISES			
133	Repair, Maintenance & Insurances	143	137	148
102	Lighting & Heating	110	92	94
976	Rent	948	948	934
336	Rates	350	335	332
8	Water	22	26	20
	TRANSPORT			
1,461	Vehicles	1,549	1,557	1,575
325	Renewals Fund Contribution	290	370	370
	EQUIPMENT			
516	IT equipment	527	512	572
120	IT Renewals Fund Contribution	129	149	149

204	Warehouse and office equipment	195	215	242
	OFFICE EXPENSES			
158	Printing & stationery	158	159	178
113	Postage	121	122	143
34	Telephones	37	45	40
	OTHER EXPENSES			
438	Catalogues & Marketing	533	508	463
0	Bank Interest	1	0	0
40	Travel & Subsistence	44	43	41
23	Subscriptions	40	41	43
36	Provision for bad debts	15	45	85
43	Miscellaneous Expenses	35	46	39
26	Audit fees	27	24	22
263	BSF Partnership Fees	182	100	80
176	Consultancy & Professional Fees	150	64	100
	CENTRAL CHARGES			
100	Support services	106	169	147
15,006	TOTAL EXPENDITURE	15,610	15,149	15,157
3,088	TRADING SURPLUS	1,003	1,822	2,659
	LESS TRANSFERS TO RESERVES:			
520	Bonus Scheme Reserve	0	0	0
450	Warehouse Efficiency Project	0	100	100
500	Legal Claim Reserve	0	0	0
400	Strategic Review Implementation		0	0
0	Building Capital Provision	0	0	400
1,218	NET SURPLUS FOR YEAR	1,003	1,722	2,159
	DISTRIBUTION OF NET SURPLUS:			
244	Trading Reserves	201	344	432
974	Distribution to Members	802	1,378	1,728
1,218		1,003	1,722	2,160