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ESPO FINANCE SUBCOMMITTEE – 22 August 2012

AGENDA ITEM NO. 7

MANAGEMENT ACCOUNTS FOR THE FIRST QUARTER

REPORT OF THE INTERIM DIRECTOR

Introduction

1. This report sets out the results for the first three months of trading April to June 2012 (Quarter 1) as per the management accounts with explanations for the more significant variances to budget and the prior year.

Trading Summary

Income

2. ESPO has continued to perform well in the first quarter of the new financial year, maintaining the momentum achieved during the preceding financial year.

3. Stores' sales value has increased this year to date by £901k (9.6%) to £10.2m. Sales to Member Authorities have fallen by 9.94%, while sales to school academies and other authorities have increased by over 20% as the move towards academies gathers pace. Compared to budget sales are £442k ahead for the year to date or 4.5%.

4. Store prices were increased below inflation for 2012-13 (2%) in the budget so the performance represents a volume increase of 7.6% on the prior year for quarter one. This is a good start on the stated four year objective of 20% growth in stores volume as set out in ESPO's Strategy and at this point we are ahead of target.

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 58% to £5.2m from £3.3m for the corresponding period in the previous year. This national initiative has been co-ordinated by ESPO on behalf of the Pro5 consortium. Compared to budget ESPO is £263k ahead or 5%.

6. Margin on directs and major projects is £636k compared to a £695k budget and £424k in the prior year. The major reason for the variance to budget is currently very low levels of activity in the major projects area. In response to this the major projects staff are being reassigned to support other areas of activity.

7. Rebate income was £0.7m an increase of 0.7% (£5k) on the prior year. Compared to budget we are £17k adverse for the year to date.

8. Catalogue advertising was £846k compared to the prior year £840k and the budget of £898k. In common with the general media advertising industry we have experienced pressure on this activity compared to the prior year. The catalogue was 12.8% (232 pages) larger than last year, but 25.3% smaller by area.

9. Other Income mainly consists of bank interest and sale of surplus assets and was £84k mainly as a result of the higher bank interest rate negotiated with RBS and better cash management..

10. Overall gross mark up for store sales is 31.7% for the quarter which is in line with the prior year but 0.9% down on the budget of 32.6%. The reason for the adverse variance is higher than budgeted discounting on store sales by means of vouchers and other sales initiatives.

11. Total income is £4.74m for the quarter compared to £4.77m budget and £4.24m in the prior year. We are thus £0.5m favourable compared to the prior year and tracking broadly in line with budget for the first quarter of the year.

Expenditure

12. Spending continues to be managed by ESPO and in the first quarter our overall total expenditure is lower than both the prior year and budget (Actual £3.81m, Budget £4.02m, Prior Year £3.85m).

13. Total employee costs are £2.32m compared to a budget £2.48m. The positive variance is due to delayed recruitment in procurement and marketing offset to some extent by additional temporary staff in the warehouse as a result of the delayed implementation of the Indigo warehouse system. The Stores employee costs are £999k compared to a budget of £993k thus only £6k over despite the additional heads as a result of keeping the cost per employee below budgeted levels. Agency costs are however higher than budget by £40k, as reported on at the Management Committee meeting held on 25 June, and it is likely that it will be difficult to avoid a full year over spend in this area though efficiencies will be found elsewhere so there should be no impact on the overall surplus.

14. Overhead expenditure is £1.49m compared to a budget of £1.53m and the prior year of £1.59m.

Summary

15. The Net Surplus for the quarter was £0.92m million which is £0.17m (22%) higher than budget and £0.53m ahead of the prior year.

16. The good start to the year is encouraging but there remains a significant challenge for the remainder of the year. These include

- Maximising and growing our rebate income;
- Continue to deliver on efficiency projects;
- Responding to competitive activity in the market place;
- Maintaining tight control on expenditure.

17. The Management Accounts for quarter one (showing the combined results and the results for the Warehouse and Procurement Divisions shown separately) are set out as an appendix to this report. Further information which informs the quarter 1 out-turn, of a commercially sensitive nature, is contained in Item 12 (Exempt Report H), elsewhere on the agenda, this includes:
    1. Detailed Service Line Reporting
    2. Detailed Cash Analysis including graphical performance.
    3. Detailed Stock analysis
    4. Staffing Analysis
    5. Analysis of reserves including movements during quarter one.
    6. Numbers of Orders

Recommendations

18. The Subcommittee is asked to consider and comment on the contents of the report and attached appendix.

Equal Opportunities Implications

19. None have been identified.

Officers to Contact

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List of Appendices

Appendix – ESPO Management Accounts for Quarter Ended June 2012.