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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 20 NOVEMBER 2012

AGENDA ITEM NO. 5

MANAGEMENT ACCOUNTS FOR THE FIRST SIX MONTHS OF TRADING

REPORT OF THE DIRECTOR

Introduction

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

Trading Summary

Income

2. ESPO's trading performance in the first half of this financial year has been encouraging.

3. Stores sales – Year to date (week 26) ESPO is 10.5% up on the prior year and 6.6% up on budget. Comparisons for the prior year for September are complicated by it being a 4 week accounting month this year and a 5 week accounting month last year, this was however budgeted for.

4. Stores Directs – Year to date ESPO is 53% up on the prior year and 5% up on budget. The variance to the prior year is principally caused by Phonics which commenced in October/November 2011. As ESPO continues through the rest of the year this percentage variance to the prior year is expected to reduce as the months become more comparable. The percentage margin on Phonics is low which was budgeted for.

5. Rebates – Year to date at September ESPO was 4% up on the prior year but 3% down on budget. Since the end of September the Organisation has experienced strong rebate performance in October and the early part of November such that this adverse variance to budget has been eradicated and figures are now ahead of budget year to date.

6. Margin on directs and major projects is £1,341k compared to a £1,362k budget and £1,377k in the prior year. The major reason for the adverse variance to budget is currently very low levels of activity in the major projects area.

7. Catalogue advertising was £865k compared to the prior year £873k and the budget of £898k

9. Other Income being mainly bank interest and sale of surplus assets was £128k mainly as a result of the higher bank interest rate which has been negotiated with ESPO's banking provider and careful cash management maximising our cash balance. This is compared to a budget of £91k and a prior year figure of £82k.

10. Overall gross mark up for store sales is 31.5% for the year to date which is in line with the prior year but 0.8% down on the budget of 32.3%. The reason for the adverse variance is higher than budgeted discounting on store sales by means of vouchers and other sales initiatives.

11. Gas – At £147k compared to a budget of £130k the gas on-cost is holding up well considering the inevitable difficulties associated with changing gas supplier. The prior year comparison is £102k. There are still on-going issues associated with the transfer which may impact the gas on-cost but prudent provisions (£20k) have been made already and further provisions will be made as necessary.

12. Total income is £9.46m for the quarter compared to £9.32m budget and £8.91m in the prior year. This is £0.55m favourable compared to the prior year and £0.14m ahead of budget.

Expenditure

13. Spending continues to be closely managed by ESPO and in the first 6 months of the financial year total expenditure was £7.7m compared to a budget of £8.1m and the prior year £7.6m. The key variance to the prior year is in expenditure on agency labour which has been as a result of plans put in place to maximise service to customers in terms of delivery, and additional costs incurred implementing the new Indigo warehouse system.

14. FTE (Full Time Equivalent) numbers year to date are 347 actual compared to the prior year of 345 and the budget of 363. The increase on the prior year has been in stores. The variance to budget is down to delays in implementing the revised procurement and marketing structure. It is planned that this will be announced to the staff in October with full implementation on 1st January 2013.

15. As a result of the above total staff costs have increased by only 0.5% on the prior year and are down 8% on budget for the year to date.

Summary

16. As a result of increased volumes, margin and lower than budget employee expenditure year to date surplus stands at £1,711k compared to a budget of £1,231k and the prior year of £1,303k.

17. Once again the good start to the trading year is encouraging but challenges remain for the remainder of the year, these include:-

- Early maximisation of the benefits of the implementation of the Indigo system;
- Addressing clear capacity constraints within the business as the volume of business grows;
- Responding to competitive activity in the marketplace in particular from YPO who are planning a nationwide catalogue drop;
- Maintaining a tight control on expenditure.

18. The Management Accounts for the first 6 months (showing the combined results for the Warehouse and Procurement Divisions shown separately) are set out as an appendix to this report. Further information which informs the management accounts, of a commercially sensitive nature, is contained in item 9, elsewhere on the agenda, this includes:-

- Detailed Service Line Reporting
- Balanced Scorecard
- Status on Efficiency Projects
- Detailed Stock Analysis
- Staffing Analysis
- Numbers of Orders

Recommendations

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

Equal Opportunities Implications

None have been identified.

Officers to Contact

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List of Appendices

Appendix – ESPO Management Accounts for the 6 Months to September 2012