ESPO

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 JUNE 2013

DRAFT OUTTURN 2012/13

JOINT REPORT OF THE CONSORTIUM TREASURER AND DIRECTOR

Introduction

1. This report sets out the draft outturn for 2012/13 with explanations for the more significant variances. Members should note that the outturn will be subject to external audit.

Trading Summary

Income

2. The spending restrictions imposed on local authorities by central government have continued to bite and this trend is expected to continue with further central government challenges expected. In addition the transfer of schools from Local Authority control to Academy status has continued and is expected to accelerate in the period between now and 2015.

3. Stores' sales value has increased this year by £2,636k (7%) to £40.3m. Sales to member authorities including academies have remained flat, while sales to other authorities have increased by 21%.

4. The growth in store sales was thus principally achieved in non-member areas.

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 to £23.35m from £18.9m the prior year. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.

6. Rebate income was £4.8m an increase of £0.6m on budget. This has been achieved while continuing to reduce rebate margin from suppliers.

7. Catalogue advertising was £0.9m and was consistent with the prior year and budget. This is a good performance at a time when pressures on advertising income are considered strong.

8. Overall the organisation's invoiced turnover for the year excluding rebates was £94.1 million. This was 8.9% higher than the prior year which was primarily due to higher store sales, directs and increased gas usage due to the extended winter.

9. A full breakdown of the total income and trading surplus is included in Appendix 1.

Expenditure

10. Spending restrictions also applied to ESPO operating expenses and employee costs. Pay rates have remained unchanged. Total employee costs, including agency costs, were 3.5% higher driven partly by increased volume at the stores. Other overhead expenditure reduced by £19k on the prior year, partly as a result of the impact of the cost efficiency programme. These forty individual projects were launched to reduce costs and drive efficiencies throughout the organisation. £150k of cost savings have been targeted from these projects in the MTFS for 2013-14.

Summary

12. The Net Surplus for the year was £2.7 million which is £74k (2.7%) higher than achieved in the prior year.

13. Further information which informs the Draft Outturn 2012/13, of a commercially sensitive nature, is contained in Item 12 (Exempt Report), elsewhere on the agenda, this includes:

    1. Detailed breakdown of the year on year sales movement
    2. Detailed breakdown of the overhead expenditure
    3. Detailed Balance Sheet.
    4. Staffing Analysis
    5. Analysis of reserves
    6. Numbers of Orders

14. 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.

Outturn 2012/13: Service line Analysis – Comparison to the prior year and the March 2013 Forecast Outturn for 2012/13

Income*:*

15. The total income after deducting stores and cost of sales for the whole organisation for the year was £18.3 million. This is a 2.8% (£0.5 million) increase over the forecast. This is principally driven by higher rebate income £0.6m.

16. Energy and Fuels operating surplus increased by £30k over the forecast to £448k as a result of the additional volume.

17. Consulting increased its volume to £478k compared to a forecast of £182k. This resulted in the division only having a net operating loss of £98k. The plan and the budget is for this division to break even in 2013-14.

18. The other noticeable increase movement was the surplus for Stores. This was £324k lower than forecast. This was down to a lower than expected gross margin. The forecast was based on the standard costing system which indicated a higher margin than actually resulted. This will now be subject to a review to ensure that such a variance does not re occur in the future.

19. Major projects generated a surplus of £149k compared to a forecast of £110k, caused by increased year end volumes. This division has been absorbed in to mainly education for 2013-14 and will thus not be subject to service line analysis in 2013-14.

Expenditure:

20. The total expenditure for the year was £15.5 million. This is compared to the forecast of £15.2m.

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

- Employment Costs £51k variance mainly down to additional agency costs.
- Vehicles £53k variance down to poor winter weather increasing wear and tear on vehicles and additional repeat drops due to school closures.
- Catalogues and Marketing £45k in line with original budget, additional marketing activity at year end to drive store and direct sales.
- Bad Debts 37k variance down to prudent provisions in line with accounting policy. These debts are not written off just provided for. There have been billing issues with gas customers resulting in disputes, these are resolved over time but have contributed to the additional bad debt charge.
- Professional Fees variance down to additional HR and Legal services.

Allocations from Operating Surplus

22. The Management Committee at its meeting on 7 March 2013 indicated that surplus reserves should be released back to general funds. To that end £145k has been released from the bonus fund provision representing the underspend on that fund as that issue is now closed.

23. 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 general repairs and capital replacements/ improvements. This is consistent with the prior year and the MTFS.

24. It is proposed that a further £572k is set aside for earmarked projects as follows:

	£k
New projects	
CMS Upgrade	11
E Commerce (e-ordering / e-invoicing)	28
Scanning software (PL invoices)	20
Demand Planning	143
E Tendering / E Procurement	100
Rebates system	100
GEMS 2	120
Organisational Changes	50
	572

Distribution of Surplus:

25. The amount available for distribution after the above allocations to reserves is £1.9 million of which 80% (£1.5 million) is attributable to member authorities as a dividend.

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

	2012-13 Proposed Distribution excl Academies £
Cambridgeshire	226,421
Leicester City	212,827
Leicestershire	209,067
Lincolnshire	232,793
Norfolk	332,367
Peterborough City	85,062
Warwickshire	207,529
Total	1,506,066

A proposal to move to a method of distribution based on including academy spend is under consideration.

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 5% of turnover. For 2012/13 £382k 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 £4.7 million which is calculated as 5% of the turnover of £94.1m.

29. The actual value of the General Fund at 31 March 2012 amounts to £2.95million. 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.

Recommendation

30. The Subcommittee is asked to recommend to the management committee

(a) the draft out turn for 2012-13;

(b) allocations from the operating surplus for 2012-13 as outlined in paragraphs 23 and 24 of this report;

(c) payment of the dividend subject to approval of the accounts and confirmation of the basis for distribution as outlined in paragraphs 25 and 26 of this report;

Reasons for recommendation

31. 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

32. None

Risk Assessment

33. None

Officers to Contact

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List of Appendices

Appendix 1 – Draft ESPO Management Accounts for year end 31 March 2013

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