Agenda Item 5

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 SEPTEMBER 2013

MANAGEMENT ACCOUNTS TO JULY 2013

REPORT OF THE DIRECTOR

Purpose of Report

1. This report sets out the results for the first four months of trading April to July 2013 as per the management accounts with explanations for the more significant variances to budget and the prior year.

Background

2. The Finance and Audit Subcommittee are updated quarterly on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy.

Trading Summary

Income

3. Stores' sales value has increased this year to date by £427k (2.8%) to £15.5m compared to the prior year. Compared to budget we are £221k behind for the year to date or 1.4%.

4. Last year sales grew by 7% including a 1.9% price increase giving a net volume increase of 5.1%. Thus after 16 months of the original 4 year plan stores volume has increased by approximately 8%. This is a good start on the stated four year objective of 20% growth in stores volume in the strategy paper and at this point ESPO is ahead of schedule (on a straight line basis at this point 6.67% growth would be expected).

5. Overall Direct Sales are 8% down on budget and 18% down on last year. The reason for the fall is the reduction in activity in the Department of Education Phonics initiative. This was budgeted for but the slowdown has been deeper than expected. Analysis suggests that ESPO has not lost market share and the slowdown is consistent nationwide. A breakdown of sales by category within Directs against the prior year shows the following:

   Furniture is 7% higher
   Hardware is 11% higher
   Stationery is 37% down
   ICT 0% change.

6. Margin on directs and major projects is £767k compared to a £741k budget and £878k in the prior year. The major reason for the positive variance to budget is currently high levels of gas invoicing following unseasonal early year weather patterns and the acquirement of additional customers. Year to

date gas invoicing is 50% up on the prior year. The impact of Phonics is less marked as it is the lowest margin product in Directs.

7. Rebate income is £1.0m which is 8.4% down on the prior year. Compared to budget we are £287k adverse for the year to date though this seems to largely be down to phasing of receipts in the budget rather than a permanent reduction.

8. Catalogue advertising is £767k compared to the prior year £851k and the budget of £883k. The expectation is that the variance to budget will be closed by December 2013.

9. Other Income being mainly bank interest and contributions to MSTAR set up costs from YPO was £89k compared to a budget of £80k and prior year £94k. The cost to ESPO of setting up MSTAR was £125k and YPO have agreed to contribute 50% towards the total costs.

10. Overall gross mark up for store sales was 33.5% for the period which is 1.8% up on the prior year and 1.3% up on budget. The reason for the positive variance is higher than budgeted margin on stationary products as a result of a new procurement arrangement with our principle supplier.

11. Total income is £6.5m for the period compared to £6.8m budget and £6.5m in the prior year. As described above the principle reason for the variance to budget is down to rebate income.

Expenditure

12. As identified in the Annual Governance Statement for 2012-13 as follows:

Scheme of Delegation Improve scheme of delegation down to lower levels of management.	AD Finance	September 2013

An improved Scheme of delegation has been implemented. In accordance with Appendix 6 of the Constitution and the Financial Regulations for ESPO the Director has delegated expenditure authority down to the Assistant Director level. The Director has implemented regular budgetary review meetings with each Assistant Director to monitor and review performance against budget.

The reports generated for the end of July to facilitate such reviews are included as an appendix to the exempt report ‘Supplementary Information Informing the Management Accounts to July 2013’ set out elsewhere on the agenda for this meeting..

Total Employee Costs

13. Compared to budget overall employee costs, including agency costs, are £3.37m compared to a budget of £3.41m and is thus a favourable variance of £0.04m. It is important to point out however that the mix between agency and establishment labour was not in line with the budget and that agency labour is currently running substantially ahead of budget. The commitment to achieve the best possible customer service at the busiest delivery time of the year was partly behind the increased agency spend. It is recognised however the importance of having a stable ESPO employed workforce so action was taken to reduce significantly the number of agency staff at the end of July permanently.

Other Expenses

14. Across the organisation Other Expenses are a total of £2.0m against a budget of £2.2m and prior year £2.0m. The principle cause of the favourable variance to budget is the release of a bad debt provision related to YPO that was established at the end of 2012-13. This related to disputed rebate allocations dating back to 2009 and due to its age it was considered prudent to fully provide for the debt. After intensive negotiations ESPO is pleased to report that the debt has been paid in full and as a result the provision can be released.

15. There are no other significant variances to report. A full detailed analysis by account code and by Assistant Director is included in the exempt report 'Supplementary Information Informing the Management Accounts to July 2013' set out elsewhere on the agenda for this meeting. .

Surplus

16. Overall at £1.13m the surplus is broadly in line with budget at £1.18m but challenges will continue for the remainder of the year. A combined summary Profit and Loss Statement is included in Appendix 1.

Balance Sheet

17. A summary balance sheet as at the end of July is included in the exempt report 'Supplementary Information Informing the Management Accounts to July 2013' set out elsewhere on the agenda for this meeting .

18. Compared to the balance sheet as at 31/3/2013 stock has increased from £4.5m to £5.4m. This is seasonal and is actually lower than previous years. The increase is to ensure peak stock availability for our customers at the busiest time of the year. A full rolling 12 month stock analysis is included in the exempt report 'Supplementary Information Informing the Management Accounts to July 2013' set out elsewhere on the agenda for this meeting.

19. Debtors now stand at £2.67m higher compared to the year-end reflecting the surge in deliveries at the peak July period. These debts are collected in September when the schools return from the summer break.

20. The impact on increased stock and debtors has had an inevitable impact on cash and this is £1.4m lower than at the 31st March year end and stands at £7.8m. Last year the balance of cash was just under £10m at this time but it

included £3.5m of dividends waiting to be distributed, this year ESPO is holding £1.5m waiting to be distributed so year on year the cash balance is broadly comparable. A trend analysis for cash compared to prior years is included in exempt report 'Supplementary Information Informing the Management Accounts to July 2013' set out elsewhere on the agenda for this meeting. .

21. A detailed cash flow is included in the exempt report 'Supplementary Information Informing the Management Accounts to July 2013' set out elsewhere on the agenda for this meeting. .

Resources Implications

22. This report sets out ESPO's management accounts for the first part of the financial year 2013/14.

Recommendations

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

Equal Opportunities Implications

24. None have been identified.

Officers to Contact

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List of Appendices

Appendix 1 Combined Summary P&L