Agenda Item 4

ESPO

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 19 NOVEMBER 2013

MANAGEMENT ACCOUNTS FOR FIRST SIX MONTHS OF TRADING

REPORT OF THE DIRECTOR

Purpose of Report

1. This report sets out the results for the first six months of trading April to September 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 2013/14 – 2016/17.

Trading Summary

Income

2. Stores' sales value has increased this year to date by £1,140k (5.0%) to £23.7m compared to the prior year £22.6m. Compared to budget we are £400k ahead for the year to date or 1.7%.

3. Prices in Store sales were increased by 0.01% in the budget so the above represents a volume increase of 5.0% on the prior year. Last year sales grew by 7% including a 1.9% price increase giving a net volume increase of 5.1%. Thus after 18 months of the original 4 year plan stores volume has increased by approximately 10%. This is a good start on the stated four year objective of 20% growth in stores volume in the strategy paper.

4. Overall Direct sales are 3.3% down on budget and 8.6% 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 in Q1 had been deeper than expected and at that point we were 18% down on the prior year. Q2 has shown a substantial improvement as a result of a targeted campaign on Phonics and at the end of October the position had been completely recovered to the extent that we are now 6% ahead of budget and 1% ahead of prior year.

5. The margin on directs and major projects is £1,087k compared to a £1,167k budget and £1,341k in the prior year. The major reason for the adverse variance is Phonics as detailed in paragraph 4 above.

6. Rebate income is £1,778k which compared to budget is £104k favourable for the year to date and £53k up on the prior year.

8. Catalogue advertising is £841k compared to the prior year £864k and the budget of £889k. 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 £111k compared to a budget of £107k and prior year £130k. The costs to ESPO to set up MSTAR was £125k and Yorkshire Purchasing Organisation (YPO) has agreed to contribute 50% towards the total costs.

10. Overall gross mark up for store sales was 32.1% for the period which is 0.6% up on the prior year and 0.6% 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 £9,572k for the period compared to £9,413k budget and £9,462 in the prior year. As described above the principle reason for the variance to budget is down to rebate income and stores mark up.

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 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 September to facilitate such reviews are included in the exempt report.

Total Employee Costs

13. Compared to budget overall employee costs, including agency costs, are £5,149k compared to a budget of £5,110k and is thus an adverse variance of £39k 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 £3,026k against a budget of £3,139k and prior year £3,007k. 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.

Surplus

16. Overall at £1,396k the surplus is broadly in line with budget at £1,163k but challenges will continue for the remainder of the year. A combined summary Profit and Loss Statement is included in Appendix 1.

Balance Sheet

12. A summary balance sheet as at the end of September is included in the exempt report.

13. Compared to the balance sheet as at 31/3/2013 stock has decreased from £4.5m to £3.8m. This is good from a cash perspective but less so from a stock availability perspective. In November we will be trialling a system developed in house to improve the stock optimisation process. Initially this will be done with ten suppliers for 4 weeks and if successful will be rolled out across the supplier base. A full rolling 12 month stock analysis is included in the exempt report

14. Debtors now stand at £3.3m higher compared to the year-end reflecting the surge in deliveries at the peak July period and the peak in September. These debts are collected in October and at the end of October the debtors were down to within £0.6m of the year-end balance.

15. The impact on increased stock and debtors has had an inevitable impact on cash and this is £2.2m lower than at the 31st March year end and stands at £7.0m. A trend analysis for cash compared to prior years is included in exempt report.

16. A detailed cash flow is also included in the exempt report.

Recommendations

17. 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 1 Combined Summary P&L

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