ESPO FINANCE AND AUDIT SUBCOMMITTEE – 17 FEBRUARY 2014

MANAGEMENT ACCOUNTS TO DECEMBER 2013

REPORT OF THE DIRECTOR

Purpose of Report

1. This report sets out the results for the first nine months of trading April to December 2013 as per the management accounts with explanations for the more significant variances to budget.

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

2. Stores' sales value has increased this year to date by £1,715k (5.6%) to £32.4m compared to the prior year £30.7m. Compared to budget we are £803k ahead for the year to date or 2.5%.

3. Prices in Store sales were increased by 0.01% in the budget so the above represents a volume increase of 5.6% 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 10.7%. 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 7.3% up on budget and 0.8% 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 December the position had been almost completely recovered.

5. Margin on directs and major projects is £1,571k compared to a £1,562k budget and £1,854k in the prior year. The major reason for the adverse variance is the discounting promotion for Phonics in the run up to the scheme ending on 31st October 2013.

6. Rebate income is £2,774k which compared to budget we are £272k favourable for the year to date.

8. Catalogue advertising is £870k compared to the prior year £889k and the budget of £894k.

9. Other Income being mainly bank interest and contributions to MSTAR set up costs from YPO was £159k compared to a budget of £165k and prior year £209k. The costs to ESPO to set up MSTAR was £125k and YPO have agreed to contribute 50% towards the total costs.

10. Overall gross mark up for store sales was 32.3% for the period which is 0.5% up on the prior year and 0.4% 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 £13,636k for the period compared to £12,929k budget and £13,556k 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 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 December to facilitate such reviews are included in the exempt report.

Total Employee Costs

13. Compared to budget overall employee costs, including agency costs, are £7,692k compared to a budget of £7,631k and is thus an adverse variance of £61k 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 year to date.

Other Expenses

14. Across the organisation Other Expenses are a total of £4,569k against a budget of £4,475k. The principle cause of the adverse variance to budget is transportation. This is related to the current age of the vehicles pending the results of the Transportation Review. Initial indications are that it is not cost effective to outsource the fleet so a programme of vehicle renewal will be implemented in 2014-15 if that is the final decision of the Management Committee when considering the proposed MTFS on 6 March 2014. This will substantially reduce these costs. In the accounts year to date £287k has

been provided for new vehicles. None of this has been spent as yet.

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 £1,374k the surplus is ahead of budget at £823k 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 December 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 January 2014 we implemented a system developed in house to improve the stock optimisation process. A full rolling 12 month stock analysis is included in the exempt report

14. Debtors now stand at £0.8m higher compared to the year-end reflecting the increase in volume.

15. The impact on increased stock and debtors has had an inevitable impact on cash and this is £0.5m lower than at the 31st March year end and stands at £8.7m. 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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