Agenda Item 7

ESPO MANAGEMENT COMMITTEE – 26th JUNE 2014

DRAFT OUTTURN 2013/14

REPORT OF THE CONSORTIUM TREASURER

Introduction

1. This report sets out the draft outturn for 2013/14 with explanations for the more significant variances to prior year, budget and forecast. Members should note that the outturn will be subject to external audit. A summary profit and loss statement (P&L) is presented below:

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
TOTAL SALES	95,605.3	94,199.8	94,019.2
TOTAL MARGIN	19,329.4	17,823.2	18,643.4
Margin %	20.2%	18.9%	19.8%
TOTAL EXPENDITURE	16,946.6	16,005.6	15,959.6
TRADING SURPLUS	**2,382.8**	**1,817.5**	**2,683.8**

Trading Summary

Income

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
SALES			
STORES	42,333.8	42,254.0	40,316.1
DIRECT	21,625.5	21,132.4	23,296.1
GAS	25,472.5	25,639.7	24,404.2
CATALOGUE ADVERTISING	930.5	896.3	918.5
REBATE INCOME	5,049.7	4,073.8	4,858.0
MISCELLANEOUS INCOME	193.2	203.7	226.3
TOTAL SALES	95,605.3	94,199.8	94,019.2

2. Overall the organisation's invoiced turnover for the year including rebates was £95.6m. This was 1.7% higher than the prior year which was primarily due to higher store sales, gas and rebates offset by lower directs.

3. Stores' sales value has increased this year, compared to the prior year, by £2m (5%) to £42.3m. Sales to member authorities including academies have increased by 2%, while sales to other authorities have increased by 8%.

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 coming to an end in October 2103 the Directs catalogue products business decreased to £21.6m from £23.3m the prior year, a fall of 7.2%. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.

6. Rebate income was £5.0m an increase of £0.2m on prior year. This has been achieved while continuing to reduce rebate margin from our suppliers.

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

8. Compared to budget overall sales are £1.4m higher driven by higher rebates £0.9m and higher directs £0.5m.

9. Compared to forecast overall sales are £4.1m lower driven by lower gas sales £4.0m as a result of the warmer winter. This also impacted sales of salt from the warehouse.

Margin

10. Stores margin (mark up) increased to 33.6% compared to 32.3% last year. This was mainly driven by the Sinclair deal on paper which resulted in a better buying price but lower rebate. The switch from rebates to margin as a result of this was approximately £200k

11. Directs margin fell to 9.7% as a percentage of sales compares to 10.8% last year. This was driven by a discount offer on Phonics in October which increased sales and market share but lowered margins. The margin is budgeted to return to over 10% for 2014-15.

12. Total margin was £19.3m against a budget of £17.8m, mainly as a result of higher rebates but also improved store sales margin.

13. Compared to forecast total margin was £0.9m higher driven once again by higher rebates and improved stores margin.

Expenditure

14. Total expenditure increased by £0.9m compared to last year. The key elements of this are as follows:

- Transport costs increased by £0.3m. This is mainly as a result of the aged fleet but also down to increased carrier costs. The issue of “to follow” orders also had an impact as stock levels fell over the summer months and stock availability suffered as a result.
- Last year ESPO had a net credit on car lease annual rental of £0.1m as a result of a release of accruals. This year the charge is £0.1m which is the actual cost and was budgeted.
- Higher IT Repairs and Maintenance costs as these contracts came up for renewal.
- Higher catalogue and marketing costs as we invest and develop these areas.

15. Compared to budget total expenditure was £0.9m higher. The key elements of this are as follows:

- Higher agency costs over the key summer peak period.
- Higher transport costs linked to the aged fleet.
- Increased car lease balloon payments.

16. Compared to forecast total expenditure was £0.6m higher, the key elements of this are as follows:

- Higher agency costs in the final quarter
- Higher transport costs, linked to carriers and the aged fleet.

<u>Summary</u>

17. The Net Surplus for the year was £2.4m which is £0.6m higher than budget and £0.3m higher than forecast. Whilst £0.3m lower than last year this is as a result of increased expenditure and lower directs offset by higher rebates and improved stores margins.

18. Further information which informs the Draft Outturn 2013/14, of a commercially sensitive nature, is contained elsewhere on the agenda for this meeting, this includes:

a) Detailed breakdown of the year on year sales movement
b) Detailed breakdown of the overhead expenditure
c) Analysis by Service Lines
d) Detailed Balance Sheet
e) Staffing Analysis

<u>Service Line Analysis</u>

19. The net surplus for Stores was £1.01m against a forecast of £1.01m so broadly in line with no significant variances.

20. Framework Contracts achieved a surplus of £0.9m against a forecast of £0.2m. This was driven entirely by higher rebates achieved at year end.

21. Energy and Fuels operating surplus was £0.5m against a forecast of £0.7m. The shortfall is entirely down to reduced gas sales in the final quarter.

22. The detailed Service Line Analysis is included in the exempt part of the report elsewhere on the agenda.

<u>Allocations from Operating Surplus</u>

23. A continued further allocation of £0.4m is proposed to be used for the Building Capital Provision. 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 to deliver a return to members in excess of the forecast in March 2014. The forecast was for a surplus of £2.1m less the £0.4m for the building provision. This would leave a £1.7m forecast surplus of which members receive 80% or £1.4m. The extra surplus actually generated is proposed to be partly retained for investment in the business. It is thus proposed that a further £100k is set aside for a warehouse automation project. This will be subject to a detailed paper for consideration by the Management Committee in due course.

<u>Distribution of Surplus:</u>

25. The breakdown of the distribution of the surplus is thus as follows:

£m	
Operating Surplus	2.4
Building Provision	0.4
Warehouse Automation	<u>0.1</u>
Net Surplus	1.9
General Fund	0.4
Dividend	1.5

26. The amount available for distribution after the above allocations to reserves is £1.90m of which 80% (£1.5million) is attributable to member authorities as a dividend. Year on year the member dividend has thus been maintained at the prior year level. Based on previous usage and subject to audit the breakdown of the dividend by member is

£	**2013-14 Proposed Distribution**
Cambridgeshire	229,240
Leicester City	203,996
Leicestershire	207,492
Lincolnshire	230,412
Norfolk	336,190
Peterborough City	92,107
Warwickshire	206,823
Total	1,506,260

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 2013/14 £0.35m 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, this is not expected to be reached during the period of the current MTFS.

Finance and Audit Sub Committee

28. This report, together with a supplementary report containing commercially sensitive information was considered by the Finance and Audit Subcommittee on 10th June 2014. Arising from discussion, the following principal points were noted;-

i. That officers should be congratulated on another record year of stores growth;

ii. That the £0.4 m allocated to building provision was part of an ongoing fund to provide provision for a new ESPO warehouse at the end of its current projected 25 year lifespan. This was a separate allocation to that of the mortgage repayments for that of the existing building;

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Recommendation

28. The Management Committee is asked to:

(a) approve of the draft out turn for 2013/14;

(b) approve the allocations from the operating surplus for 2013/14 as outlined in paragraphs 23 and 24 of this report;

(c) approve payment of the dividend, subject to approval of the accounts in September 2014, as outlined in paragraphs 25 and 26 of this report;

Officers to Contact

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List of Appendices

Appendix 1 – ESPO Management Accounts for Year End 31 March 2014

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