ESPO FINANCE AND AUDIT SUB COMMITTEE – 17 NOVEMBER 2014

AGENDA ITEM NO. 4

MTFS MONITORING FOR THE FIRST SIX MONTHS OF 2014-15

REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. To update Members on the financial performance for the first six months of the financial year.

Background

2. The detailed MTFS monitoring for the first six months of 2014-15 is set out below;

3. The stated business goals in the MTFS strategy were:

	Financial Target (where applicable)	RAG Rating (current)
Value for Money		Amber
Cost Efficiencies	£765k (Cumulative)	Amber
Adapt to maintain core business		Green
Grow volume by 20%	4% this year	Amber
Maintain rebate income	£5m this year	Green
Grow Net worth of business	£2.2m this year	Amber
Fair return to Members	£1.4m this year	Amber
Competitive pricing		Green
Develop Staff Capabilities		Amber
Expand services offered to customers		Amber

The summary current MTFS updated for 2013-14 actuals is shown below:

ESPO BUSINESS PLAN MODEL		SUMMARY							
		2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Year 1	2015/16 Year 2	2016/17 Year 3	2017/18 Year 4
		£m	£m	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES									
INVOICED SALES		86.6	86.5	94.0	95.6	100.1	103.0	105.5	110.2
CONTRACTS & COMMISSIONING		449.1	1009.0	500.0	510.0	520.2	530.6	541.2	552.0
TOTAL		535.7	1095.5	594.0	605.6	620.3	633.6	646.7	662.2
TRADING INCOME		18.1	17.8	17.9	19.3	18.7	18.9	19.4	19.8
TRADING SURPLUS		3.1	2.6	2.7	2.4	2.2	2.4	2.7	3.0
MEMBERS' DIVIDEND		1.0	1.7	1.5	1.6	1.4	1.6	1.8	2.1
USABLE CASH RESERVES		5.9	6.6	7.5	8.3	9.1	9.9	10.7	11.6
NET WORTH		6.8	9.8	11.0	12.3	12.6	13.4	14.3	15.2
PROPERTY, PLANT AND EQUIPMENT		11.0	11.2	10.9	11.0	11.0	11.0	11.0	11.0
LOAN LIABILITY		-10.0	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0	-6.5
FORECAST ASSUMPTIONS:									
Stores Income Growth			3.8%	7.0%	5.0%	4.3%	4.1%	3.0%	7.4%
Stores Price Inflation			3.0%	1.9%	0.3%	0.3%	0.3%	0.3%	0.3%
Stores Volume Growth			-3.3%	5.1%	4.8%	4.0%	3.8%	2.7%	7.1%
Stores Gross Mark Up			31.6%	32.3%	33.4%	32.2%	32.8%	32.4%	30.3%
Wage Inflation			0.0%	0.0%	1.0%	2.0%	2.0%	2.5%	2.5%
Headcount	- Stores Average FTE		196.4	194.7	163.2	175.6	175.6	175.6	175.6
	- Procurement Average FTE		150.9	150.5	178.0	182.6	182.6	182.6	182.6
	-Total		347.3	345.2	341.2	358.2	358.2	358.2	358.2
Cost Efficiencies				0	0	765	1110	1298	1574
Warehouse Payroll Costs as % of Stores T/O			11.52%	11.35%	10.04%	10.04%	9.63%	9.30%	9.30%

4. Progress against the financial plan is summarised in the paper below:

Financial Performance for the First Six Months of 2014-15 Compared to the MTFS

Sales

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
SALES			
STORES	24,109.6	24,276.7	23,695.5
DIRECT	10,235.5	9,633.3	10,479.5
GAS	8,408.5	12,525.3	10,631.0
CATALOGUE ADVERTISING	736.2	849.7	841.0
REBATE INCOME	1,800.3	1,420.1	1,778.3
MISCELLANEOUS INCOME	31.0	90.0	111.5
TOTAL SALES	45,321.2	48,795.1	47,536.9

5. Total sales at 45.3m are behind budget of £48.8m principally down to lower gas sales which are showing an adverse variance of £4.8m. This is weather dependant and not a reflection of lost business.

6. Store sales are £167k behind budget but £414k ahead of last year.

7. Direct sales have held up strongly considering that the Phonics Department for Education initiative came to an end last October. They have largely been replaced by the current school meals initiative.

8. Rebates are £380k ahead of budget and fractionally ahead of last year by £22k. It is vital that rebates come in at least at last year's level of £5m.

9. Catalogue advertising remains behind budget but the expectation is that this will recover by year end.

Margin

	YEAR TO DATE ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
Margin			
STORES	5,992.8	5,840.2	5,754.9
DIRECT	1,192.9	1,041.0	966.4
GAS	98.1	146.4	120.2
CATALOGUE ADVERTISING	736.2	849.7	841.0
REBATE INCOME	1,800.3	1,420.1	1,778.3
MISCELLANEOUS INCOME	31.0	90.0	111.5
TOTAL MARGIN	**9,852.2**	**9,387.5**	**9,572.4**
Margin %	**21.7%**	**19.2%**	**20.1%**

10. Overall margin is £465k ahead of budget due to higher rebates and improved stores margin.

11. Stores mark-up is 33.1% compared to a budget of 32%. Overall the mix has been more favourable towards higher margin items than expected in the budget. Last year the comparable figure was 33.3% and we expected a fall as a result of the sub inflation pricing strategy.

12. The impact of the shortfall in gas sales of over £4.8m is reduced margin of £48k.

Expenditure

	YEAR TO DATE ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
EXPENDITURE			
EMPLOYEES			
Staff	4,906.7	4,732.0	4,535.1
Agency/Contract	783.5	551.6	614.4
Total	5,690.2	5,283.6	5,149.4
OVERHEAD EXPENSES			
Stores	1,979.1	1,987.5	1,967.5
CP	1,201.5	1,212.7	1,045.6
Total	3,180.6	3,200.2	3,013.1
TOTAL EXPENDITURE	8,870.8	8,483.7	8,162.5

13. Total expenditure is £387k ahead of budget principally driven by higher agency costs and staff costs. The pressures experienced at peak servicing the demand have contributed to this result.

14. Overhead expenses are in line with budget with no major variances to report.

15. Compared to last year overheads are higher due to:

- Last year a £114k release of a bad provision for YPO
- Additional agency costs of £170k
- Impact of implementation of Procurement and Marketing restructure
- Senior Management Team implementation

Surplus

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
TRADING SURPLUS	**981.4**	**903.7**	**1,409.9**

16. Trading surplus is £78k ahead of budget principally down to higher rebates offset by higher agency and employment costs.

17. Last year's surplus was helped by a number of one off releases such as a bad debt provision for YPO.

18. There are risks associated with the costs of service delivery in the warehouse in Q3 whilst further enhancements to the operation are implemented. It is considered unlikely that this will be recovered in Q4 and hence the RAG status on achieving the year end surplus is now amber and a forecast of a £2m surplus compared to a budget of £2.2m is considered prudent.

Service Line

19. The detailed service line analysis is included in Appendix 1 showing performance compared to budget for the Stores, Directs, Energy, Frameworks and Consultancy. All areas are making a net contribution apart from consultancy which is showing a small loss.

Balance Sheet and Cash Flow

20. A detailed balance sheet and cash flow is included in Appendix 2.

21. Overall stock levels are now lower than at last year end reflecting improved stock optimisation and post peak normal patterns.

22. Debtors are £2.8m higher than year-end but this is seasonal and cash receipts in September were ahead of last year and by the end of October I expect debtors to be at March 2014 levels.

23. Creditors are lower as a result of paying winter gas charges to Total for our customers.

24. At the Finance and Audit Sub Committee meeting in June 2014 Members asked

"*That the Chief Officer Group be requested to give consideration to ESPO's current approach to Treasury Management and provide a report back to the Subcommittee at its next meeting.*"

25. A paper prepared by LCC treasury department addressing this question which was considered by the Chief Officers Group on October 27th 2014 is included in Appendix 3.

Resources Implications

26. None

Recommendation

27. Members are asked to note the current performance for the first six months of the year compared to the MTFS.

Equal Opportunities Implications

28. None

Risk Assessment

29. None identified

Officers to Contact

Mr J Doherty – Director (0116 265 7931)
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Appendix 1: Service Line Analysis
Appendix 2: Balance Sheet and Cash Flow
Appendix 3: Treasury Report