



EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

CONSORTIUM SECRETARY: JOHN SINNOTT, MA, Dipl. P.A.,
CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date: 25 February 2020
My Ref: CT/ESPO
Please ask for: Cat Tuohy
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To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held on Wednesday, 4 March 2020 as a Skype Meeting at County Hall. The Chairman, officers presenting the report and the Consortium Secretary will be present in Guthlaxton Committee Room.

Information on how to connect to the meeting has been emailed to you, please let me know on the number above if you have any queries.

Yours faithfully,

Cat Tuohy
for Consortium Secretary

AGENDA

Item

Report by

1. Minutes of the meeting held on 21 November 2019. (Pages 3 - 6)
2. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.
3. Declarations of interests in respect of items on this agenda.

4. Items referred by the Finance and Audit Subcommittee.

The issues considered by the Subcommittee are covered in items 5 and 10 which appear elsewhere on the agenda.

- | | | | |
|----|-------------------------------------|-------------------------|-----------------|
| 5. | Annual Internal Audit Plan 2020-21. | Consortium
Treasurer | (Pages 7 - 12) |
| 6. | Director's Progress update. | Director | (Pages 13 - 24) |
| 7. | Date of Next Meeting. | | |

The next meeting of the Committee is scheduled to take place on 24 June 2020 at 10.30am as a physical meeting at Leicestershire County Hall.

8. Exclusion of the Press and Public.

The public are likely to be excluded during consideration of the following items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).

- | | | | |
|-----|--------------------------------------------------------------------------------------------|-----------------------------------------|-----------------|
| 9. | Supplementary Information Informing the Progress Report of the Director's Progress Update. | Director | (Pages 25 - 40) |
| 10. | Forecast Outturn 2019/20 and Draft MTFS 2020/21 - 2023/24. | Director and
Consortium
Treasurer | (Pages 41 - 72) |
| 11. | Streamlining ETL Governance Arrangements. | Director and
Consortium
Secretary | (Pages 73 - 82) |
| 12. | Any other items which the Chairman has decided to take as urgent. | | |

Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield on Thursday, 21 November 2019.

PRESENT

Cllr. S. Rawlins – Lincolnshire County Council

Cambridgeshire County Council

Cllr. M. Howell

Lincolnshire County Council

Cllr. A. Hagues

Leicestershire County Council

Dr. K. Feltham CC

Mr. R. Shepherd CC

31. Inquorate Meeting.

The Chairman advised members present that the ESPO Constitution provides that for a quorum there should be at least four Members who are entitled to attend and vote, provided that at least four of the Member Authorities are represented.

As the meeting was inquorate it would be necessary for the Consortium Secretary to write to all constituent authorities to seek their agreement to “decisions” reached. This would be in relation to the following items on the agenda:-

Item 7 – Strategic Alliance

Item 8 – Accounting for ESPO under IFRS rather than CIPFA code of practice

Item 9 – ESPO External Auditor Contract Award

32. Minutes.

The notes of the meeting held on Thursday 19 September 2019 were taken as read, confirmed and signed following a correction that the meeting took place at ESPO Grove Park.

Members noted that ESPO was treated as an admitted body of the Leicestershire Pension Fund, a report on the pensions deficit would be brought to a future meeting following the Fund’s triennial valuation that had taken place. Members noted that on an actuarial basis ESPO was 81% funded, the deficit would be repaid over 15 years.

33. Urgent Items.

There were no urgent items for consideration.

34. Declarations of interests.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

35. Director's Progress Report.

The Members present considered a report of the Director which provided an update of the actions and progress made since the last ESPO Management Committee held on 19 September 2019. A copy of the report, marked 'Agenda Item 4', is filed with these minutes.

Arising from the discussion the following points were noted:-

- i) Members were pleased to note that the sickness absence rate had continued to improve, the Director assured Members that the figure was continually monitored, work would continue to improve the figure.
- ii) Officers tracked the responsiveness to call waiting times and were able to organise staffing levels accordingly to deal with known busy times to keep waiting times down.
- iii) It was important that ESPO continued to invest in high stock availability to respond to the complex needs of customers to prevent them going elsewhere.
- iv) ESPO were committed to the health of staff which was supported by access to Leicestershire County Council staff benefit's such as Wider Wallet, which provides discounted gym membership, eye tests and bike schemes among others. ESPO also took part in the Leicestershire County Council Mental Health First Aider scheme held in house flu clinics for staff.

Members present noted the contents of the report.

36. Exclusion of the Public.

It was agreed that under Section 100(A) (iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following items of business as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

37. Supplementary Information Informing the Director's Progress Update.

Members present considered an exempt report of the Director which set out further supplementary information regarding the Director's Progress Update. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

The exempt report was not for publication as it contained information relating to the financial or business affairs of a particular person (including the authority holding that information).

In response to queries made, the Director responded as follows:

- i) ESPO was continuing to develop its current, and additional services, in line with the agreed business case. Where an opportunity arose for ESPO to expand its operations it would be explored and brought to the Management Committee's attention.

- ii) ESPO were aware of the pressures being brought by the Climate Emergency. Officers were looking at actions that could be taken to become more environmentally friendly while remaining aware of the demands of its customer base.
- iii) The Management Committee would continue to receive regular updates on the Website Project.

Members present asked the contents of the report be noted.

38. Strategic Alliance.

Members received a report of the Director seeking approval to undertake further work on a Strategic Alliance. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

The exempt report was not for publication as it contained information relating to the financial or business affairs of a particular person (including the authority holding that information)

The Director presented the proposed strategic alliance and potential workstreams and responded to questions raised. Members were pleased that the route proposed would respond to market pressure and the predicted future changes in the sector. Further reports would be brought to the Management Committee as needed.

Members present noted the contents of the report and the recommendations as set out in the report to take forward the proposed strategic alliance.

39. Accounting for ESPO under IFRS rather than CIPFA code of practice.

Members received a report of the Director and Consortium Treasurer outlining accounting method for ESPO under IFRS rather than the CIPFA code of practice. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

The exempt report was not for publication as it contained information relating to the financial business affairs of a particular person (including the authority holding that information).

The Director assured Members that the changes to the accounting method would provide no material difference to the information provided to Members and constituent authorities received from ESPO. Members were pleased that the change would bring ESPO more in line with private sector competitors.

Members noted the contents of the report and endorsed the change to the accounting method.

40. ESPO External Auditor - Contract Award

Members received a report of the Director and Consortium Treasurer to approve the award for the appointment of Grant Thornton as external auditor for ESPO. A copy of the report, 'Marked Item 9', is filed with these minutes.

Members noted the contents of the report and agreed the appointment of Grant Thornton as external auditor.

41. Date of Next Meeting.

It was noted that the next meeting of the Committee would be held on 4th March 2020 at 10.30am via Skype.

Times Not Specified
21 November 2019

CHAIRMAN

ESPO MANAGEMENT COMMITTEE – 4 MARCH 2020**REPORT OF THE CONSORTIUM TREASURER****ANNUAL INTERNAL AUDIT PLAN 2020-21****Purpose of Report**

1. The purpose of this report is to provide information on the work undertaken to create the annual Internal Audit Plan (the Plan) for 2020-21.
2. The Finance and Audit Subcommittee considered the Annual Internal Audit Plan 2020-21 at its meeting on 12 February and its decision is reflected in the recommendations in this report.

Background

3. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs.
4. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) to provide internal audit for ESPO. LCCIAS must conform to the Public Sector Internal Audit Standards (the PSIAS) which were last revised in April 2017.
5. The PSIAS require the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy and effectiveness of ESPO's control environment (its framework of governance, risk management and control). In order to form an opinion, the scope of internal audit work needs to be wide. The PSIAS require the HoIAS to prepare a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
6. The HoIAS' opinion helps to inform either the traditional Annual Governance Statement (a requirement under the Accounts and Audit Regulations 2015, which apply to the Member Authorities comprising ESPO), or any alternative report following ESPO's adoption of International Financial Reporting Standards (IFRS).
7. The Finance & Audit Subcommittee (the Subcommittee) is responsible for receiving and reviewing audit and governance reports and it acts as 'the Board' for PSIAS purposes. The Subcommittee received and noted the Plan at its meeting on 12 February 2020. However, it does not have any decision-making authority and the Plan has to be approved by Management Committee (the Committee) given it has overall strategic responsibility for the management oversight and direction of and being the sole decision maker for ESPO.

Planning methodology

8. The Director of ESPO and the Leadership Team identify and manage risk and where it is required, design, implement and operate robust internal control systems. Targeted internal audits have identified continuing improvements to governance and risk management at ESPO, so to ensure that current and emerging risks are adequately covered the Plan is aligned with the Corporate Risk Register, the Business Strategy and the Annual Governance Statement.
9. To further develop the scope of audit coverage, the HoIAS researches and evaluates where other/additional risk might occur to ESPO using methods including: -
 - a. Consulting on emerging risks, planned changes and potential issues with the Director and the Leadership Team and the Consortium Treasurer and Secretary. The incoming External Auditor will be consulted.
 - b. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
 - c. Identification and evaluation of the robustness of other forms of assurance received
 - d. Comparisons against similar purchasing consortia audit plans.
 - e. 'Horizon scanning' new and emerging risks from professional and industry sources
 - f. The risks to critical 'business as usual' systems when focus shifts elsewhere
10. Part of the Plan requires annual audits on key elements of the financial and IT systems. These audits are undertaken in consultation with ESPO's External Auditors to assist in their planning of their annual audit to form an opinion that ESPO's financial accounts are not materially misstated. In the past, the External Auditor has determined that the quality and scope of LCCIAS work is sufficient to contribute positively to ESPO's overall control environment.
11. Any other significant projects for example ICT or Business Growth developments would be targeted for audit. GDPR compliance will be covered as part of Leicestershire County Council's audit but any findings of relevance will be reported to ESPO members.
12. A contingency is retained for consulting (advisory), unforeseen risks, special projects and investigations. An allocation is reserved for the HoIAS' role in governance requirements (attendance at committees, form opinions and reports etc) and progressing any high importance recommendations.

The internal audit plan 2020-21

13. The attached Plan for 2020-21 (Appendix) contains a wide scope of audits that should allow the HoIAS to form an opinion on the overall adequacy and effectiveness of ESPO's control environment. The overall scope of the Plan is comparable to a competitor of ESPO.
14. A small amount of resource will be required to finalise 2019-20 audits.

15. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap).
16. The 2020-21 Plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be stressed that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes in ESPO's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree any material changes with the Director of ESPO and Consortium Treasurer and these would be reported to the Committee.
17. Detailed Terms of Engagement covering each audit's scope, timing and any areas for exclusion are agreed with the relevant risk owners (Assistant Director) in advance of each audit.

Progressing the Audit Plan

18. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with ESPO management. LCCIAS' role and responsibility is to carry out independent and objective audits and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
19. On completion of each audit, findings will be discussed with the appropriate risk owner before issuing a report to the Director and the Treasurer. The opinions reached, along with summary findings are reported each quarter to the Director and the Treasurer and will be reported more formally to the Finance & Audit Subcommittee at its scheduled meetings, with any urgent matters in the interim periods being brought to the attention of the Management Committee.
20. If any audit produces a 'high importance' recommendation, then the full report would be shared with the Subcommittee and/or Management Committee dependent on timing, and specific re-testing is undertaken later in the year to prove that control has actually improved and is embedded.

Resource Implications

21. The budget for the provision of the internal audit service is contained within ESPO's Medium Term Financial Strategy under charges by the Servicing Authority. The 2020-21 plan has been agreed on an indicative 150 days. This level of coverage should enable the HoIAS to provide overall reasonable assurance to the Consortium Treasurer the risks that ESPO is facing are being managed.

Conclusion

22. The detail of the 2020-21 Internal Audit Plan is attached in the Appendix to this report. The plan has been presented to the Consortium Treasurer, Consortium Secretary and the Director of ESPO for comments and approval.

Recommendation

23. That the Finance and Audit Subcommittee having considered the Internal Audit Plan 2020-21 in detail recommends the Management Committee to:
- a) Note and support the methodology used as a basis for developing the Internal Audit Plan 2020-21;
 - b) Note and agree the ESPO Internal Audit Plan for 2020-21

Equal Opportunities Implications

At this stage there are no known direct implications resulting from the internal audit plan strategy, although 'human resource' elements will be audited.

Background Papers

None.

Officer to Contact

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Appendices

Appendix - ESPO Internal Audit Plan 2020-21

Control env't component	Entity	The indicative audit objective is to ensure that...
Various	Continuation of work commenced in 2019-20	To complete any outstanding audits
Governance	Annual Governance Statement 2019-20	Review of the management self assessments of assurance in the 2019-20 AGS
Governance	Transition to International Financial Reporting Standards (IFRS)	Preparedness for the movement from CIPFA to IFRS 102 to include governance related reports supporting the financial statements
Governance	Transition from EU	Preparedness for potential supply chain issues and workforce issues
Governance	Frameworks	Developing any new offerings
Governance	Business growth - Strategic alliance(s)	Business case development, review and approval
Risk Management	Warehouse	Review of the capital investment decision process
Risk Management	Credit control	Review of credit control arrangements especially with export and private sector and due diligence routines
Risk management	Counter Fraud - NFI specific	Results are correctly interpretation and investigated
Risk management	Counter Fraud - procurement	Specific area(s) of potential fraud are addressed
Risk Management	Website Development	Key risks and issues are effectively identified and managed - project governance and assurance on user testing and training
Risk Management	IT Developments	Replacing e-mail servers into the cloud; future delivery methods
Risk Management	Emerging risks	ESPO identification and prepraedness for any emerging risks e.g. climate change requirements
Internal control	General Financial Systems (*)	To discuss with the External Auditor and Assistant Director (Finance), but typical coverage includes reconciliations; receivables; payables; payroll and stock
Internal control	IT general controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.
Internal control	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits
Internal control	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to
Internal control	Overseas travel	Post event reviews
	Contingency	Unforeseen events brought to the attention of the Head of Internal Audit Service by either ESPO Leadership Team or the Consortium Officers - may include business growth; new legislative
	Client management	Planning & research; progress meetings; servicing Committees; HoIAS requirements; confirming implementation of HI recommendations; External Audit liaison; advice
		Total days = 150
		(*) Annual audits undertaken to assist the External Auditors to form an opinion that ESPO's financial accounts are not materially mis-stated

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ESPO MANAGEMENT COMMITTEE – 4 MARCH 2020

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Briefing Note

- The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 21 November 2019.

Overall Financial Performance

- Overall financial performance to December 2019 is outlined below:

Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	34,579.2		35,664.5		34,211.4	
DIRECT	14,275.0		13,483.7		14,404.3	
GAS	9,752.7		9,037.3		9,933.3	
CATALOGUE ADVERTISING	760.1		673.6		664.9	
REBATE INCOME	5,347.7		4,014.8		4,957.3	
MISCELLANEOUS INCOME	250.1		115.3		59.0	
TOTAL SALES	64,964.7		62,989.3		64,230.1	
TOTAL MARGIN	18,549.5		17,208.2		17,481.3	
TOTAL EXPENDITURE	14,474.6	22.3%	14,282.5	22.7%	13,825.8	21.5%
As % of Total Sales Excluding Gas		26.2%		26.5%		25.5%
TRADING SURPLUS	4,074.9	6.3%	2,925.7	4.6%	3,655.5	5.7%

- Overall trading surplus is ahead of last year by £419k. The full year target is a surplus of £5m and we are forecasting a range of £5m to £5.2m. The budget targets for rebates in Q4 included a number of anticipated one offs that have already been achieved, that will cause the variance to budget to narrow over the remainder of the year.
- Total sales at £64.9m are ahead of budget by £1.9m.
- Store sales £1.0m adverse to budget and £0.3m favourable to last year. The performance during October and November was disappointing compared to budget but our investigations indicate that it was in line with the market.
- Direct sales are £0.8m ahead of budget YTD as a result of strong MOD sales.
- Rebates are £1.4m ahead of budget and £0.4m ahead of last year. The key comparison is to last year.
- Eduzone sales have stabilized with the rolling 12 month sales now approximately £800k.

The balanced scorecard is attached at Appendix 1.

3. Each year as part of our budget planning we update the Medium Term Financial Strategy (MTFS) for ESPO. This year we are developing a Long Term Financial Strategy (LTFS) to cover the next eight years to allow for investment to realise greater returns. This will be presented in detail through Chief Officer Group (COG), Finance and Audit Sub Committee and Management Committee during the next reporting quarter.

ESPO Operational Progress

4. In December ESPO's distribution centre processed £1.789m of customer orders and the fleet made 12,563 customer deliveries. Warehouse picking was performed at a rate of 36 lines per hour, an improvement on the target of 32 lines per hour. A new target of 40 lines per hour is to be adopted in the new financial year. The error rate detected by QA was 2% which is an improvement on the budget of 3%. The YTD average order value for stock orders was £171.01 which is £9.25 higher than this time last year.
5. Operational and supply chain year to date costs were £8.011m against a budget of £7.834m, which is £177k above budget. Warehouse costs show a net overspend on budget on agency staff. Above budget external storage costs have been incurred to meet the increased product storage requirements of the business. Distribution costs were impacted by the unbudgeted vehicle renewal provision and repair and maintenance costs.

6. Certain one-off health and safety training costs were incurred in the second and third quarters, together with building maintenance costs associated with the fabric of the Grove Park property. ESPO is currently benchmarking its warehouse operational costs with other organisations within the educational supplies market and from wider industry. This will help to identify improvement opportunities. Total operational costs as a percentage of stores sales were 23.2% against a budget of 21.71% which is partly a reflection of the recent downturn in stores sales.
7. The customer services team processed 17,523 customer orders valued at £1.957m. Direct orders currently valued at £873km are being managed from suppliers to customers. Across Customer Services, Directs and the Catalogue Admin the teams handled 5,359 telephone calls. The average waiting time of six seconds. ESPO's FEEFO customer service rating was 96%. We were delighted to learn that ESPO have been awarded the Platinum Trusted Service award. This means that ESPO has consistently been delivering excellence to its customers over multiple trading years and have reached the highest level of accreditation as a result.
8. As part of ESPO's recent membership to the Institute of Customer Service, ESPO launched both an internal and external customer satisfaction survey. The survey asks a comprehensive series of questions to gain an in depth understanding of our customers and staff view of our current service provision alongside any expected service improvements. Based on the results of the survey which will be made available to ESPO in March, a review will take place of the findings. Following this review a transformation plan and roadmap will be created to drive through our customer experience improvements across the business, in turn enabling ESPO to provide excellence in customer service both internally and externally. This transformation plan and the subsequent changes will support our journey towards accreditation by the Institute.
9. Ongoing improvements plans are in place with a number of workshops being held with key stakeholders and staff across the business to transform our processes and customer experience. The recently established Customer Experience Improvement Group continues to enable and drive through the changes required. Our staff are involved in identifying and looking at solutions for service improvements through the implementation of a staff improvement log.
10. A number of telephony improvements have been identified, including ESPO's front end voice messaging. ESPO Leadership team have decided to engage with a supplier to develop a series of ESPO branded waiting and promotional messages, with the aim to reduce dropout rates during call holding periods and promote our services and promotional activity.
11. An action plan for our Customer Services Team to restructure will create the platform for the creation of multi-skilled teams, enabling a 'one touch'

approach to our Customer Service Delivery. A new structure shall be in place by April 1st 2020.

12. The stock optimisation team maintained product availability at 99.26% with 74 lines out of 9,871 temporarily unavailable; stock value was £6.140m with a stock turn of 7.21. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at KCS in Maidstone, at the port of Felixstowe and by its printer in Poland. A long term strategic solution to address this space requirement is currently being developed as part of a longer term financial plan.
13. Facilities management in December comprised the annual service from Defensor of our fire alarm equipment, the five yearly legionella inspection, completion of mesh deck installation in the warehouse high bay area, service and repair of stretch wrapping equipment in the warehouse. Repairs and installation of lighting and sockets to various parts of the building were completed and various repairs and maintenance of equipment throughout the building.
14. There were two minor accidents in December. An agency worker sustained a small cut to the shoulder whilst constructing a pallet cage. There were no obvious signs of sharp edges, the cages were checked and re-training was provided. An agency driver alleged a back strain whilst using a hand pallet truck on the tail lift of his vehicles. An investigation suggested poor manual handling technique.
15. The Annual Health & Safety Management Review was updated and agreed by ESPO Leadership Team. This has been launched with Heads of Departments and will be monitored at weekly and monthly scheduled meetings. Delivery driver 'packs' have been completed with new induction sheets, training records and overarching training matrix created. All drivers will have comprehensive evidence of training and competence and programme of ongoing observation in place.
16. The catalogue portfolio for 2020/21 includes the Primary and Secondary main catalogue; Early Years; Eduzone and Corporate catalogues. Over 1,000 new stock lines including science, sport and outdoor activity have been added together with 4,000 new direct lines. This is aimed at supplementing our categories in the secondary school sector. The catalogues will include the new ESPO SmartBuy branding. The Catalogue Team are busy preparing pages for the 2020/21 catalogue range in preparation for the print cycle. The pricing strategy for each series of catalogues has been formulated and agreed by the Leadership Team. A proposed publishing timetable has been created to ensure that the new catalogue portfolio is managed in line with business requirements.

Staffing

17. Sickness absence continues to be well managed and our overall levels have decreased again. The reductions evidenced over the last 12 months have been continually seen every month, and this provides great confidence that these reductions will continue to be sustained in the future. Managers remain fully embedded with our approach and they continue to work with HR to implement appropriate support plans to help individuals return to work in a timely manner. As a result of our improvements, the sickness target has now been reduced to an average of 7.5 days per person (over a rolling 12 month period). This target ensures that ESPO continues to stretch our performance levels to be one of the lowest within our comparator group.
18. The completion rates for our mandatory training courses have increased again, and as a result of these improvements the target completion rates have subsequently been increased to 90%. Whilst this is challenging, it will ensure that training and development remains a focus for our managers and staff. Ensuring that staff have the necessary skills and knowledge to undertake their roles successfully is key for our service delivery.
19. Induction sessions based on both a corporate welcome and also more specific Health & Safety issues have continued to be delivered to new employees. Staff wellbeing is an important aspect for ESPO and the Leadership Team will also review the Wellbeing Strategy in March to ensure it still provides the correct strategic direction.
20. ESPO announced its employee of the year awards as part of its Christmas close down event. This year winners were Andreea Czirik, Operations and Supply Chain Analyst for Employee of the Year, Jamie O'Connor, Customer Relationship Manager for Excellent Service Award and Attila Brezsa, Warehouse Operative and Haleema Patel, Marketing Officer, for People's Champion Award.
21. To ensure the delivery of our future commercial journey, ESPO will need to review the structure of its Leadership Team and senior managers so that it is resourced to meet future demands and changing markets. It is expected that some changes to roles and responsibilities will occur as a result, ensuring resources and attention are allocated to the right areas. It is expected that these changes will be in place during the summer of 2020.

ESPO Risk and Governance Update

Health, Safety, Wellbeing and Facilities Management & Corporate Risk Register

22. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) and the top risks are attached at Appendix 2.

Coronavirus outbreak

23. As a group, coronaviruses are common across the world. Typical symptoms of coronavirus include fever and a cough that may progress to a severe pneumonia causing shortness of breath and breathing difficulties. Generally, coronavirus can cause more severe symptoms in people with weakened immune systems, older people, and those with long-term conditions like diabetes, cancer and chronic lung disease. Novel coronavirus (COVID-19) is a new strain of coronavirus first identified in Wuhan City, China. The government has introduced regulations to reduce the risk of further human-to-human transmission in this country by keeping individuals in isolation where public health professionals believe there is a reasonable risk an individual may have the virus.

UK Impact

24. As of 13 February nine patients in England have tested positive for coronavirus. Based on the World Health Organization's declaration that this is a public health emergency of international concern, the UK Chief Medical Officers have raised the risk to the public from low to moderate. This permits the government to plan for all eventualities. The risk to individuals remains low.

Perceived Risks to ESPO

Supplier Shortages

25. With many educational suppliers manufacturing overseas and with the connectedness of the world economy there is a risk that certain product lines will be in short supply. Coupled with the extended lead times for products that are transported by sea, any supply problems are unlikely to be resolved quickly. This risk will have an impact on ESPO's competitors. Mitigation is to source products closer to the UK. Currently we are contacting suppliers to establish which suppliers purchase stock or components from China.

Staff Shortages

26. If the virus becomes more widespread we can anticipate staff shortages across the business. We should also recognise that schools may close in order to reduce further infection. ESPO would utilise its relationship with a wide range of staff agencies to source both operational and admin staff. In terms of operations we would call upon support from staff elsewhere in the business with previous warehousing experience and from the management team. For those roles that allow remote working this would be encouraged together with the use of teleconferencing and skype meetings to coordinate and agree activity.

Health Advice

27. ESPO continue to monitor Government advice and act accordingly. To date, Public Health England and the WHO have declared the risk to individuals in the UK as low. Internally, ESPO continue to promote good handwashing and hygiene practices and have increased the availability of antibacterial wipes and cleaning equipment. Our contracted cleaning contractors disinfect door handles and hand rails as part of our contract. Should a member of staff contract coronavirus EPSO will liaise with PHE directly at County Hall and follow any recommendations. Should isolation be required our Smarter Working Policy provides guidance on staff working from home and where necessary individual risk assessments will be completed. In the event there is a requirement for an extended number of staff to work from home all available lap-tops provide to staff across the business will be recalled and distributed accordingly.
28. ESPO recognises the risk posed by the coronavirus and has established team responsibilities to examine developments and possible actions to mitigate the impact on the business as well as updating its risk register. This will include discussions with local authority stakeholders and government guidelines to adopt a best practice response to the threat as it emerges and to keep customers and staff informed.

Resources Implications

None arising directly from this report.

Recommendation

Members are asked to note and support the contents of this report.

Officer to Contact

Kristian Smith, Director

k.smith@espo.org

Tel: 0116 265 7887

Appendices

Appendix 1: Balanced Scorecard

Appendix 2: CRR extract

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Management Summary Dec 19

Management Summary

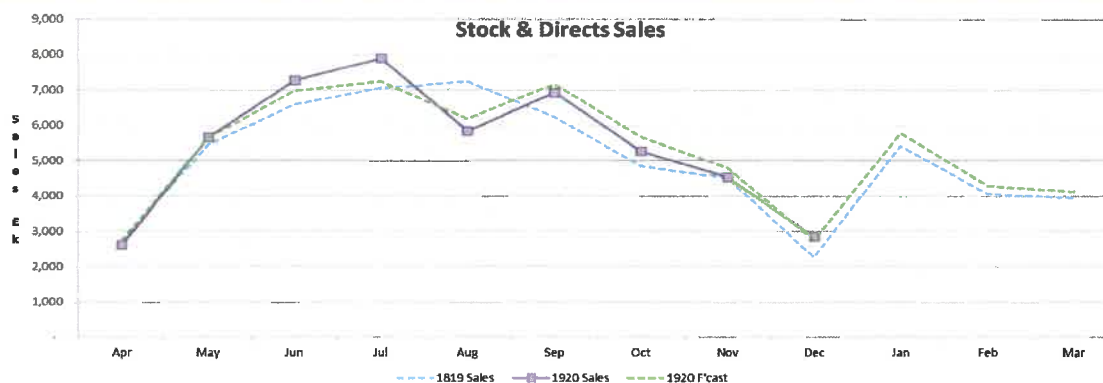
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stores Sales	£1,785,546	£1,792,488	↓ -0.4%	£34,579,244	↓ -3.0%
Direct Sales	£1,055,091	£977,356	↑ 8.0%	£14,274,876	↑ 5.9%
Rebate plus fee income	£368,539	£352,102	↑ 4.7%	£5,347,870	↑ 33.2%
Total Sales (Exc Gas)	£3,218,478	£3,146,116	↑ 2.3%	£55,212,002	↑ 2.3%
Stores Margin %	28.84%	28.21%	↑ 0.63pp	28.63%	↓ -0.28pp
Directs Margin %	14.84%	13.56%	↑ 1.28pp	14.03%	↑ 0.47pp
Total Gross Margin inc Consumables Cost	£1,082,375	£1,041,784	↑ 3.9%	£18,548,732	↑ 7.8%
Total Expenditure	£1,488,423	£1,466,720	↓ -1.5%	£14,474,585	↓ -1.3%
Surplus	-£406,048	-£424,935	↑ £18,887	£4,074,147	↑ £1,148,434
Net Profit Margin %	-12.62%	-13.51%	↑ 0.89pp	7.38%	↑ 1.96pp
Operations cost as a proportion of sales	45.2%	41.0%	↓ -4.23pp	23.2%	↓ -1.49pp
Expenditure as a proportion of Gross Margin	137.5%	177.6%	↑ 40.06pp	78.0%	↑ 4.96pp

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Eduzone Sales	£28,395	£27,437	↑ 3.5%	£578,302	↑ 4.7%

Customer Order KPI's

	TY YTD	LY YTD	Var
AOV	£171.01	£161.75	↑ £9.25
Prop of orders over £15	97.0%	96.9%	↑ 0.10pp

Graph - Sales vs. Forecast



HR

	Actual	Target	Var
Sickness Absence Rates *	8.1	8.0	↓ 0.1
No. of Apprentices	19	7	↑ 12.0

*Average days lost per FTE in a 12 month rolling period

Mandatory Training Completion	Actual	Target	Var
Fraud	92%	90%	↑ 2.07pp
Data Protection	80%	90%	↓ -9.51pp
Equality & Diversity	88%	90%	↓ -2.20pp
Health & Safety	85%	90%	↓ -5.31pp
GDPR	77%	90%	↓ -12.87pp

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ESPO

Risk Ref	Risk Description	Consequences / Impact	Risk Owner	Original Risk Score Impact	Original Risk Score Likelihood	Original Risk Score	Risk Action Tolerate / Treat / Transfer / Terminate	List of Current Controls / Actions Embedded and operating soundly	Risk indicators to be used to monitor the risk	Current Risk Score (as at 31/12/17) Impact	Current Risk Score (as at 31/12/17) Likelihood	Current Risk Score	Risk Action Tolerate / Treat / Transfer / Terminate	Further Action / Additional Controls	Action Owner	Action Target Date	Q4 Comments / Updates
25	Increased competition including Amazon & CCS	1. Possible implications on business volume, reputation, new business and on trading results in the Catalogue business 2. Through collaboration with CCS and YPO; CCS is dominating the management of such contracts (MFDs) including the management of the rebates; ensuring security of the income stream is becoming a threat to ESPO's business model. 3. Amazon: moving deliberately into the public sector space, and focussing on education as a key area, Amazon have expressed interest widely within the market place at becoming more than an ad hoc supplier to schools of all levels, expressing their intention to partner with, or secure suppliers who have tailored offering for the sector.	AD Commercial	4	4	16	Treat	1. Working with suppliers and customers to improve the 'offering', facilitating this relationship through capturing and using business intelligence and managing this 'knowledge'. 2. Continue seeking efficiencies through international sourcing 3. Amazon: Continue to market our 'not for private profit' credentials and continue to craft our ranges to offer the very best solution to all tiers of education from our stock and directs position. To explore collaboration with our PBO neighbours to ensure opportunities are not missed in securing market share dominance on key lines such as paper, glue sticks and exercise books. 4. Website Development. 5. Use of BESA benchmarking for ongoing market share data. 6. Continue to make frameworks easier to access. 7. Develop ETL framework offering for diversity of customer base.	1. Changes to key customers' buying (as highlighted at Weekly Trading) 2. Fluctuations in rebate income (as highlighted at Weekly Trading) 3. Stalling of e-commerce uptake trends (as highlighted in IT update) 4. Amazon: Reduction in traditional stationery and direct electrical item sales at category level. 5. Termly customer research and feedback 6. Competitive mapping for frameworks, including new threats from Bloom and CCS expansion. 7. Staff migration to competitors.	5	2	10	Treat	1. Review loyalty scheme – increased requirement on income streams 2. Robust sales and marketing strategy to be developed to reflect the heightened competition in this sector and to support the revised MTFs. 3. Review of Customer Offer 4. MATs package 5. Review termly research. 6. Keep a close eye on developments in the market & particularly on CCS & Amazon. 7. Continue to look out for member authority frameworks that duplicate ESPO's offering. 8. Keep abreast of speculative frameworks that could take business from ESPO frameworks.	AD Commercial	Ongoing	13/06/2018 Amazon added to Consequences/Impact, Controls / Actions- and Risk Indicators. 05/09/2018 Reviewed - minor edits. 04/10/2018 Reviewed - updated key controls, risk indicators and further actions. 06/03/2019 Risk and Action owner updated. Further Action/Additional Controls point 6. added. 25/03/2019 Original risk score reduced. 01/04/2019 Points 5, 6 & 7 added to List of Current Controls. Points 6 & 7 added to Risk indicators. 02/12/2019 Additional controls added.
33	Health and Safety compensation claims and fines.	Substantial claim made as a result of a Health and Safety event. Given the nature of the warehouse environment and the customer premises we operate in etc. it is possible these claims could be substantial. This could result in ESPO being placed at substantial risk of continuing in business due to level of damages paid and reputational impact.	Director	4	4	16	Treat	1. Ownership by the Director 2. Dedicated Health and Safety Officer & Senior H&S Advisor. 3. Risk assessments, safe systems of work. 4. Incident, accident and near miss reporting recorded on Assess-net allowing for overview and enhancing ability to determine actions to mitigate future risk 5. Investment in safety equipment 6. Regular Health and Safety Committee meetings (Director to review minutes) 7. Internal Audit assessment 8. Regular Health and Safety walkabouts 9. Standard update item at monthly Leadership Team (LT) Officer at quarterly LT Risk Meetings	1. Health and Safety Walkabout actions 2. Internal Audit reports 3. Staff Surveys 4. Record of Health and Safety events and actions taken and recorded on Servicing Authority's Assess-net	4	3	12	Treat	1. 3rd Party Independent Assessment 2. Health and Safety culture embedded throughout the organisation 3. Response to public ' ' to be considered in Health and Safety planning e.g. Grenfel Towers 4. Appoint H&S advisor via LCC SLA. 5. Investment in new reach trucks with additional safety features and more driver aids. 6. Plans to recruit more permanent reach truck drivers. 7. Programme of H&S training courses implemented 8. Look to ammend policies in future	AD Operations	See Comments 1.March 2019 2.Feb 2019 3.Jan 2019	05/09/2018 Reviewed - List of current control sammended, removed point 10 (1. All LT received specific training in Health & Safety) 06/12/2018 Updated further actions. Targets: 1. Introducing mesh-decks on the pallet racking to reduce probability of push-throughs. 2. Installing CCTV into the bulk store to enable route cause analysis on incidents. Also to assist with training. 3. Programme of document control being rolled out to enable electronic retrieval of safety documents. 04/03/2019 4. Health, Safety & Wellbeing Policy document created Nov 2018. 5. ESPO H&S Policy Statement Nvo 2018. 6. H&S Action Plan - Nov 18. 7. H&S SLA with LCC Jan 2019. 8. Compliance Action Plan reviewed weekly by LT Jan 2019. 9. Monthly HS&W review with LT. 03/06/2019 Point 7 added to further actions. 10. Specification for the 8 new LGVs delivered May 19 include additional safety features. 03/09/2019 LCC audit on H&S planned for sept 2019. 02/12/2019 4th & 5th November LCC H&S Audit conducted by Tony OBrien. Minor
51	Space constraints in the context of ESPO growth ambitions - options for mitigating short and long	1. Unable to operate safely 2. Unable to process customer orders 3. Unable to store sufficient stock 4. The exercise book supply chain will require ESPO to purchase and store stock at an earlier stage in the cycle. This is estimated at circa 2,000 pallets. There is insufficient space at the ESPO warehouse.	AD Operations	4	4	16	Treat	1. Use of peak warehouse 2. Rationalise supplier base 3. Create more efficient storage regime 4. Create more efficient picking regime 5. Outside storage of exercise books at Felixstowe 6. Assess supplier holding stock 7. Extend the mezzanine floor 8. Introduce warehouse automation 9. Assess use of modular buildings on the ESPO site. 10. Modified supply chain for exercise books with production in Poland requiring less storage space at the Leicester Warehouse 01/08/218 11. Mitigation is through pursuing an off-sit, shared-user warehousing agreement with the supplier.	1. Racked space utilisation 2. Lines picked/packed per person per hour c.f. budget 3. Overall lines picked per day c.f. budget	4	3	12	Treat	LCC discussions. Visibility at LT on a regular basis.	AD Operations	N/A	05/09/2018 List of current controls updated (point 10. added) - continuous consolidation of part pallets in the racking built into workflow 01/08/218 - new racking built on the mezzanine to accommodate Eduzone stock 01/08/2018 06/12/2018 Reviewed . Agreed temporary storage space off-site during peak trading April-July. Dec 2018 using KCS in Maidstone. 25/03/2019 Risk 73 (see obsolete tab) merged into risk 51. Original and current risk scores updated. 03/06/2019 Reviewed - no updates. 03/09/2019 Meeting with KCS in September 2019 to discuss storage facilities in 2020. 16/09/2019 we have secured up to 1750 pallet spaces from KCS for 2020/21. 02/12/2019 Discussions with LCC regarding additional warehouse site 4th Nov paper being developed.

ESPO

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63	Exiting EU	1. 'Within year' increases in buying prices due to higher import costs could reduce margins – possible failure to suppress 'cost of sales' target and impact on international sourcing programme 2. Year on year buying price increases put pressure on margins/competitiveness 3. Inflation could reduce discretionary spend by customers – reduced sales 4. Extension to austerity or further cuts in public finances – impact on customer spending 5. Threat to achieving MTFS 6. Competition benchmark reset 7. Post Brexit tariffs 8. Supply chain disruption 9. Potential increase in business failures 10. Changes to EU procurement law 11. Additional LT meeting/monitoring sessions to be diarised 12. Liason @ AD level between	Director	4	4	16	Treat	1. Aim to resist price increase 'within year' 2. Mitigate increases through competition, re-sourcing, extensions 3. Support sales through targeted promotion and marketing 4. Factor in changes to the MTFS 5. Competition position on pricing and Brexit pass through 6. Strategic supplier engagement 7. Enhance catalogue T&Cs 8. Make website default price reference point 9. Create Brexit planning group	1. Review YPO catalogue to consider market reaction to price increases 2. Seek to pass through but still observe pricing position 3. Top 30 suppliers accounting for 50% of catalogue business on Creditsafe weekly 'alert' (automatic notification of change in status)	4	3	12	Treat	1. Workforce Strategy agreed 2. Yearly commercial plan in place. 3. Understanding of where goods come from EU through supplier engagement.	Director	Ongoing	01/10/2018 reviewed -updated further controls and consequences. 02/12/2019 List of Current Controls updated.
78	Coronavirus	1. 'Stock supply shortages for products or components that are made in China. With consequential effects in UK manufacturers production capability. 2. 'Staff shortages in all ESPO functional areas due to high sickness rates. 3. 'School closures to reduce infection spread. 4. 'Overall economic impact on ESPO's business activities due to sluggish restoration of international supply chain..	AD Operations	4	4	16	Treat	1. 'Set up an internal team tasked with managing ESPO's activities and communications in response to the health crisis. 2. 'Monitor updates and advice from WHO and UK government . 3. 'Maintain regular communications with customers, staff and stakeholders. 4. ESPO continue to promote good handwashing and hygiene practices and have increased the availability of antibacterial wipes and cleaning equipment. Contracted cleaning contractors disinfect door handles and hand rails as part of our contract. 5. Should a member of staff contract coronavirus EPSO will liaise with PHE directly at County Hall and follow any recommendations. 6. Should isolation be required our Smarter Working Policy provides guidance on staff working from home and where necessary individual risk assessments will be completed. In the event there is a requirement for an extended number of staff to work from home all available lap-tops provide to staff across the business will be recalled and distributed accordingly.. 7. Assess suppliers shortages through daily phone contact by Stock	1. Weekly stock availability reports with supplier shortages and failed customer orders. 2. Weekly 'staff sickness records attributable to the coronavirus. 3. Weekly trading analysis	4	3	12	Treat	1. Align staff policies to LCC guidelines. 2. Assess trading impact on financial forecasts. 3. Understanding of alternative sources of catalogue products. 4. Regular meetings of the internal team 5. Ongoing communications with all relevant parties through web site, weekly comms and formal reports.	Director	Ongoing	

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