



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: 6 September 2022  
My Ref: CT/ESPO  
Please ask for: Cat Tuohy  
Direct Dialling: (0116) 305 5483  
e-mail: cat.tuohy@leics.gov.uk

To: Members of the ESPO Management Committee

Dear Member,

### **ESPO MANAGEMENT COMMITTEE**

A meeting of the Management Committee will be held on Wednesday, 14 September 2022 at 10.30am **via Microsoft teams.**

Yours faithfully,

Cat Tuohy  
for Consortium Secretary

### **AGENDA**

<u>Item</u>	<u>Report by</u>
1. Appointment of Chairman.	
2. Minutes of the meeting held on 29 June 2022.	(Pages 3 - 10)
3. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.	
4. Declarations of interests in respect of items on this agenda.	
5. Items referred by the Finance and Audit Subcommittee.	
<i>There are no specific items referred.</i>	
6. Director's Progress update.	Director (Pages 11 - 22)

7. Date of Future Meetings.

Future meetings of the Committee are scheduled to take place on the following dates at 10.30am:

Wednesday 16 November 2022

Wednesday 22 March 2023

Wednesday 28 June 2023

Wednesday 20 September 2023

Wednesday 15 November 2023

8. Any other items which the Chairman has decided to take as urgent.

9. Exclusion of the Public.

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

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

Director

(Pages 23 - 36)

Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield on Wednesday, 29 June 2022.

PRESENT

Lincolnshire County Council

Cllr. S. Rawlins

Cllr. A. Hagues

Peterborough City Council

Cllr A. Coles

Cllr O. Sainsbury

Leicestershire County Council

Mr. J. Poland CC

Warwickshire County Council

Cllr. R. Baxter-Payne

APOLOGIES:

Apologies were received from Cllr Peck and Cllr Jamieson (Norfolk County Council), Cllr W. Fitzgerald (Peterborough City Council, substituted by Cllr. O. Sainsbury), Cllr. P. Butlin (Warwickshire County Council) and Mrs. M. Wright CC (Leicestershire County Council).

IN ATTENDANCE:

Cambridgeshire County Council

Cllr. B. Goodliffe (Cambridgeshire County Council – Online)

Cllr. S. Ferguson (Cambridgeshire County Council - Online from item 13)

Grant Thornton (Minute 7 refers)

Andy S. Reid (Online)

ESPO

Kristian Smith - Director

David Godsell – Assistant Director

Matt Selwyn-Smith – Assistant Director

Dave Goodacre – Financial Controller

Leicestershire County Council

Lauren Haslam – On behalf of Consortium Secretary

Declan Keegan – On behalf of Consortium Treasurer

Neil Jones – Head of Internal Audit Service

Matt Davis – Internal Audit Manager

Mo Seedat – Head of Democratic Services

Cat Tuohy – Democratic Services Officer

56. Appointment of Chairman.

In the absence of the Chairman and Vice-Chairman Cllr. S. Rawlins was appointed Chairman for the duration of the Meeting.

Cllr. S. Rawlins in the Chair

57. Chairman's Announcements.

The Chairman thanked Cllr. Butlin for his work as Chair of the Management Committee for the period June 2021 to May 2022. During his period of office Cllr Butlin had overseen the following:

- Introduction of a new flexible working environment for ESPO staff making best use of space & technology
- A trading surplus of 5.6m despite the macro circumstances faced, meaning a year on 'bounce back' of £1m surplus growth from 2020-21.
- ESPO Trading Ltd returned a profit for ESPO Trading Ltd after only its third full year of trading.
- ESPO's procurement services generated a record rebate of over £9m
- Approval of a 26000 sq ft warehousing extension to the Grove Park including mobilisation of contractors and project board to deliver in time for the 2024 peak trading period
- Progression of the business development agenda including 'MySchoolFund' partnership with Sainsbury's, launch of 'Smarter Solutions' branding use of ESPO frameworks for a wider customer group and growth into Scotland via Scotland Excel framework place.
- The pilot of electric delivery vehicles into ESPOs fleet

Members of the Committee echoed the Chairman's comments and thanks.

58. Election Of Vice-Chairman.

Mrs. M. Wright CC was appointed Vice-Chairman for the municipal year ending April 2023.

59. Minutes.

The minutes of the meeting held on 16 March 2022 were taken as read, confirmed, and signed.

60. Urgent Items.

There were no urgent items for consideration.

61. 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.

62. Items referred by the Finance and Audit Subcommittee.

There were two items referred by the Finance and Audit Subcommittee, concerned in items 10 - Internal Audit Service – Annual Report 2021-22 (minute 10) and 14 Draft Outturn 2021-22 (minute 14).

63. External Audit of the 2020/21 Financial Statements.

The Committee considered a report from the external auditors, Grant Thornton covering the 2020/21 Financial Statements, together with a letter of representation from the Consortium Treasurer. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

The Chairman welcomed Andy S. Reid from Grant Thornton, to the meeting.

Arising from the discussion the following points were made:

- i. As part of the 2019/20 financial statements ESPO received a qualified opinion as Grant Thornton had not been able to attend the stock check in person, meaning they were unable to apply what was required by the Audit Standards. As a result, the 2020/21 accounts had also received an unqualified opinion due to absence of an opening balance position. Members were assured that the qualified opinion was not unique to ESPO and had occurred on other audits across other public sector organisations such as NHS Trusts.
- ii. Grant Thornton had identified three misstatements, one that had been adjusted to reclassify interest costs from administrative expenses, and two unadjusted misstatements which related to the application of depreciation to revalued buildings and a prior year unadjusted misstatement that related to a cut off issue between 2018/19 and 2019/20. These were not deemed significant or material to have an impact on the 2020/21 statements. No significant control issues or areas of concern.
- iii. Grant Thornton informed the Committee that overall the quality of information was good, and ESPO had cooperated and provided good access and prompt responses to queries.

The Committee noted this was the final year of Grant Thornton's External Audit service for ESPO, as new auditors had been appointed. Details of the new audit arrangements were set out in the report to the Committee in November 2021. Members were informed that ESPO would be back on track with its reporting from the September meeting of the Management Committee. While ESPO was not bound by reporting deadlines, it was considered part of good governance to provide timely assurance to the Committee and Member Authorities.

APPROVED.

That the external audit of the financial statements 2020/21 be approved.

64. 2020/21 Financial Statements and Annual Governance Statement

The Committee considered a report of the Director and Consortium Treasurer which reported on the 2020/21 Accounts and Annual Governance Statement. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Arising from the discussion the following points were noted:-

- i. The dividend of £3.3m had been distributed to Member authorities at the end of 2021 for the 2020/21 surplus.

- ii. Though ESPO was not bound to produce an Annual Governance Statement, it was considered part of good governance to provide additional assurance to the Committee, alongside the financial accounts and external audit.
- iii. ESPO were mindful of potential volatility in the economy and the impact of inflation on its working capital. Historically, the Management Committee's approach was to retain surplus which provided resilience against potential risk factors.
- iv. ESPO were part of the Leicestershire County Council Pension Fund LGPS. As of 31 March 2021 ESPO held a net deficit of £26.7m, which would be repaid over the long-term, and was factored into the Medium Term Financial Strategy and formed business as usual for ESPO.

RESOLVED:

That the Statement of Accounts and Annual Governance Statement for 2020/21 be approved.

65. Internal Audit Service - Annual Report 2021-22.

The Committee received a report of the Consortium Treasurer on the Internal Audit Report 2020/21. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

The Head of Internal Audit (HoIAS) informed the Committee that aside from the partial assurance rating on cyber security arrangements, no other significant governance, risk management or control failings had been come to his attention. Therefore, substantial assurance had been given, and ESPO's control environment overall remained adequate and effective.

There were three high importance recommendations in the Cyber Security Audit Report, which had been accepted by ESPO. The HoIAS was confident, having spoken to senior managers, that the issue was well understood, and work was already underway to mitigate the risk, and Internal Audit would follow up progress in the next quarter.

The HoIAS informed the Committee that three planned audits had been cancelled during 2021-22 due to other work prioritisation, or certain audits taking longer. The previously planned audits would either be deferred or risk assessed during 2022/23 to consider continued relevance.

The Committee noted that the ESPO Senior Management Team met regularly with the Consortium Treasurer and the HoIAS at Leicestershire County Council to review the findings of audits. Members were assured that any high assurance recommendations would be reported to the Management Committee.

RESOLVED:

That the Annual Internal Audit Report 2021/22 be approved.

66. Director's Progress update.

The Management Committee gave consideration to a report of the Director which provided an update of the actions and progress made since the previous ESPO Management Committee held on 16 March 2022. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

In response to a question on recruitment the Director informed the Committee that ESPO did not look to target specific demographic groups, though they did tend to target local universities to recruit graduates. It was noted that ESPO were looking to engage a recruitment coordinator who would focus on recruitment opportunities, as well as understand any barriers for those who did not wish to join ESPO.

ESPO employed between 300 and 350 staff, which increased during summer months. Throughout ESPO there were pockets of vacancies, such as within procurement, given the high demand for procurement professionals across the sector. Demand for drivers also continued, for which ESPO had worked with Leicestershire County Council and deployed a market supplement to bolster and maintain recruitment. Members were assured ESPO monitored the employment carefully across the business.

RESOLVED:

That the report be noted.

67. Exclusion Of Press and Public.

RESOLVED:

That under Section 100 (A) (iv) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that it will involve the disclosure of exempt information as defined in the Act and that in all of the circumstances the public interest in maintaining the exception outweighs the public interest in disclosing the information.

68. Directors Supplementary Information.

The Committee received an exempt report from the Director which set out further supplementary information regarding the Director's Progress Update. A copy of the exempt report, marked 'Agenda Item 13', 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).

Arising from the discussion the following points were noted:

- i. New proposed procurement rules would present a significant shift from the European Union Rules. ESPO were aware of the changes and would continue to monitor and plan for any challenges ahead.
- ii. ESPO were customer led, and continued to see demand for paper catalogues, exercise books and paper generally within schools. The Committee were assured that ESPO managed their suppliers and stock closely to avoid risk to availability.
- iii. In relation to the energy, ESPO communicated regularly with its customers about risk and pricing as it was recognised that rising costs could only be managed to a certain extent.

- iv. ESPO had introduced exclusive package deals for Multi Academy Trusts.

RESOLVED:

That the report be noted.

69. OUTTURN 2021-22.

The Committee considered an exempt joint report of the Director and Consortium Treasurer concerning the draft Outturn 2020/21. A copy of the report, marked 'Agenda Item 14', 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 Committee was advised that the Finance and Audit Subcommittee had considered and recommended the report for approval at its meeting in May 2022.

- i. The returns received in relation to energy frameworks were protected as the rebate received was generally at a fixed price.
- ii. In relation to wage settlements, ESPO continued to monitor the situation and had budgeted for a 2% increase, though recognised it could be up to 4%. ESPO were confident that it would still achieve its budget.
- iii. The rebate income was a key income stream that drove ESPO's surplus due to the high spend under contract. Given the size of the market ESPO felt there was still potential to grow.

RESOLVED:

- a) That the report be noted.
- b) That the provisional £4.1m dividend be approved and the £400,000 be allocated to Building Reserves in line with practice adopted in previous years of the MTFs.

70. PROJECT UPDATE ON ESPO WAREHOUSE EXTENSION.

The Committee considered a report of the Director which provided a project update on the progress towards the ESPO Warehouse Extension. A copy of the report, marked 'Agenda Item 15' 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)

Members highlighted development delays within their own council developments that had resulted in increased costs they were aware of. The Director assured the Committee that ESPO would control the controllable and ensure good governance of the project through regular engagement with the Management Committee and the project board.



It was noted that ESPO received advice from Leicestershire County Council's Strategic Property Team, and had added additional contingency to manage risk to the project which would be carefully managed at each project board.

RESOLVED:

That the Committee note support the report.

71. ESPO.ORG ONE YEAR ON.

The Committee considered an exempt presentation of the Director the purpose of which was to update Members in relation to the new Website. A copy of the report. Marked 'Agenda Item 16', 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 Committee noted work was ongoing to ensure ESPO had optimised 'Search Engine Optimisation' and 'Search Research Optimisation', which was simplified on the new website.

The website was mobile, and i-pad friendly and presented a better user experience for customers. Arising from a question it was noted there were limits with whom ESPO could trade and this was governed by the Local Government Goods and Service Act. The Act had not been updated since originally enacted hence the decision to establish ESPO Trading Limited to give extra bandwidth to trading.

RESOLVED:

That the presentation be noted.

CHAIRMAN

10.30-12  
29 June 2022

This page is intentionally left blank

**MANAGEMENT COMMITTEE – 14 SEPTEMBER 2022**

**PROGRESS UPDATE**

**REPORT OF THE DIRECTOR**

**Purpose of the Briefing Note**

1. The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 29 June 2022.

**Financial Performance – 3 months to June 2022**

**Summary**

Year to June 2022 – Period 3					
£m	Actual	B/(w) than Budget		B/(w) than LY	
Stores Sales	14.8	2.0	16.0%	1.6	12.0%
Direct Sales	5.4	1.3	31.5%	1.2	28.8%
Rebate plus fee income	2.4	0.4	22.6%	0.4	17.5%
<b>Total Sales (Exc Gas)</b>	<b>22.5</b>	<b>3.8</b>	<b>20.1%</b>	<b>3.1</b>	<b>16.2%</b>
Stores Margin %	32.8%	2.1%		2.9%	
Directs Margin %	14.3%	(0.5%)		(0.3%)	
Total Gross Margin	8.7	1.5	21.5%	1.5	20.3%
Total Expenditure	6.2	(0.3)	(3.9%)	(0.5)	(7.6%)
<b>Trading Surplus</b>	<b>2.6</b>	<b>1.3</b>		<b>1.0</b>	
Trading Surplus %	11.4%	4.6%		3.1%	

2. After 3 months, **a surplus of £2.6m has been made which is £1.3m better than budget.**
3. Following the launch of the new catalogue on 1 April, trading has performed well with **volumes being ahead of budget.** This is despite catalogue selling prices increasing by more than normal this year due to the high levels of inflation on the cost of goods that we have experienced. The budget was cautious regarding sales volume, recognising the financial pressures that our schools are facing and we have been pleasantly surprised by the result although it has increased pressure on product availability. Some of the additional volume is from customers bulk buying early and so we may see sales slow in the second half of the year.
4. Rebate income from our frameworks is £0.4m ahead of budget.
5. The surplus is £1.0m better than last year, with Directs and Rebates in particular benefitting from entering 2022/23 with strong order pipelines (remembering last year schools were closed until March 8<sup>th</sup>).

6. Costs continue to be tightly controlled with expenditure of £6.2m slightly higher than budget due to the costs of fulfilling the additional sales volume.
7. For the full year, the budget is a surplus of £5.7m. There remains further opportunity in rebate income given inflation and the strong 21/22 final outturn. Catalogue trading in July, whilst ahead of last year, didn't continue at the same pace as June and we remain cautious about the impact in the second half of the year of customers stocking up. We're also mindful of the impact of the increasing cost of goods and the Local Government Pay Award for 22/23. At the time of writing, a proposal from the national employers was announced last week and we estimate this to have a cost to ESPO of c£0.8m, of which £0.25m is budgeted.
8. Considering all this, **our latest guidance for the full year is a trading surplus in the range of £5.6m - £6.1m.** (Budget = £5.7m)

### Sales and Margin

Sales and Margin						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Stores Sales	14.8		2.0	16.0%	1.6	12.0%
Direct Sales	5.4		1.3	31.5%	1.2	28.8%
Rebate income	2.4		0.4	22.6%	0.4	17.5%
<b>Total Sales</b>	<b>22.5</b>		<b>3.8</b>		<b>3.1</b>	
Stores Margin	4.8	32.8%	0.9	2.1%	0.9	2.9%
Directs Margin	0.8	14.3%	0.2	(0.5%)	0.2	(0.3%)
Rebate income	2.4		0.4	(0.5%)	0.4	(0.3%)
Gas Margin	0.1	2.4%	0.0	(0.0%)	0.0	0.0%
Catalogue Advertising	0.6		(0.0)		0.0	
Misc	0.0		0.0		0.0	
<b>Total Gross Margin</b>	<b>8.7</b>	<b>38.7%</b>	<b>1.5</b>	<b>0.5%</b>	<b>1.5</b>	<b>0.9%</b>

Gas						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Gas Sales	4.4		0.3	8.4%	0.7	17.6%
<b>Gas Margin</b>	<b>0.1</b>	<b>2.4%</b>	<b>0.0</b>	<b>(0.0%)</b>	<b>0.0</b>	<b>0.0%</b>

9. Total sales up to June 2022 were £22.5m, which was £3.8m better than budget and £3.1m better than last year, with trading starting strongly despite ESPO needing to increase prices to a higher degree than normal due to the inflationary price increases that we have seen across our range of goods.
10. **Stores sales were £14.8m and £2.0m / +16% better than budget.** Customers have made good use of our discount windows to 'stock up', perhaps to safeguard their supply and anticipating further price increases, and as a result we don't expect sales to continue at this pace for the rest of the year. Demand for paper-based products has been particularly strong due to some supply challenges in the market.

11. **Gross profit margin % for Stores at 32.8% is ahead of budget** and this is mainly timing. In this quarter, margin is benefitting from stock in the warehouse purchased last year at lower prices, particularly on categories which saw high levels of inflation like paper. As the impact of price rises takes effect margin will return back to budget for the full year.
12. Global supply challenges from issues such as Covid and the war in Ukraine continue to impact stock availability, and significantly higher sales than expected have resulted in availability reducing to 94% at the end of June. Product availability is closely monitored and managed to fulfil customer orders as promptly as possible and our availability does reduce slightly in the summer linked to our peak demand period. These issues affect the entire market, not just ESPO, and we have seen competitors affected in a similar or worse way with a number of new customers approaching ESPO as a result.
13. **Directs sales were £5.4m and are £1.3m ahead of budget.** We saw strong orders (and sales) through 21/22 and we entered 22/23 with a strong pipeline of orders.
14. **Gross profit margin % for Directs at 14.3% is 0.5% behind budget,** but this is largely due to the mix of product sold and is expected to normalise as sales increase through the year.
15. **Rebate income of £2.4m is £0.4m ahead of budget** and continuing to perform very well with a wide range of frameworks offered and a good pipeline in place of contracts secured for the future.
16. **Income from our gas service is in line with budget.** This service relates to a customer bill validation service, and also acting as a procurement agent on behalf of customers where we buy their gas on their behalf. These attract a fixed charge and so ESPO's trading surplus isn't exposed to the price volatility seen in the gas market. The customer ultimately bears this risk, but part of the service involves ESPO using our expertise and size to forward buying gas to manage this risk more effectively and in line with the agreed risk profile for the service.
17. Our other income from selling advertising space in the catalogue and misc. income like bank interest are all largely in line with budget.
18. **Overall gross profit margin at £8.7m is £1.5m better than budget.**

## Expenditure

<b>Expenditure</b>			
<b>£m</b>	<b>Actual</b>	<b>B/(w) than budget</b>	<b>B/(w) than LY</b>
<b>Employee Costs</b>			
Staff	3.1	0.2	(0.0)
Agency/Contract	0.6	(0.2)	(0.2)
<b>Total</b>	<b>3.7</b>	<b>0.0</b>	<b>(0.2)</b>
<b>Overhead Expenses</b>			
Transport	0.8	(0.1)	(0.1)
Warehouse	0.2	(0.0)	0.2
Procurement	0.0	0.0	0.0
Sales & Marketing	0.4	(0.0)	(0.0)
Finance	0.4	(0.0)	(0.3)
IT	0.4	(0.0)	(0.1)
Directorate	0.1	(0.0)	(0.0)
<b>Total</b>	<b>2.4</b>	<b>(0.3)</b>	<b>(0.3)</b>
<b>Total Expenditure</b>			
	<b>6.2</b>	<b>(0.3)</b>	<b>(0.5)</b>
<b>As % of Total Sales Excluding Gas</b>	<b>27.4%</b>	<b>4.2%</b>	<b>1.8%</b>

19. **Total expenditure of £6.2m was £0.3m higher than budget** due to higher transport costs associated with fulfilling the additional sales volume. We retain a continued focus on strong cost control across all areas.
20. **Expenditure as a % of sales** is one KPI which allows us to measure cost control in relation to sales. This KPI is 27.4% and is 4.2% better than budget and shows costs are being controlled in relation to sales activity.

## ETL/Eduzone

21. ETL and Eduzone are ESPO's limited companies which service the private sector.

<b>ETL and Eduzone</b>			
<b>£k</b>	<b>Actual</b>	<b>B/(w) than Budget</b>	<b>B/(w) than LY</b>
Eduzone Sales	132	(70)	(60)
ETL Sales	502	429	467
<b>Total Sales</b>	634	359	407
Eduzone Gross Margin	42	(29)	(26)
Eduzone Gross Margin %	32.1%	(3.3%)	(3.7%)
ETL Gross Margin	70	35	58
ETL Gross Margin %	14.0%	(34.4%)	(20.3%)
<b>Total Gross Margin</b>	113	6	32
Eduzone Expenditure	(69)	3	4
ETL Expenditure	(47)	(27)	(37)
<b>Total Expenditure</b>	(116)	(24)	(33)
<b>Trading Surplus</b>	(3)	(18)	(1)
Trading Surplus %	(0.4%)	(6.1%)	0.3%

22. ETL, our business serving international and private sector customers, has started particularly strongly mainly due to a large furniture contract which was fulfilled in Q1. Whilst generating incremental margin (£), as it is furniture the margin % is slightly lower than normal/budget. Sales to international distributors are also growing.
23. Eduzone, our business focusing on early years in the UK, is slightly behind budget, with sales from one larger customer stalled across April to June whilst our 22/23 prices were reviewed and agreed.
24. Overall margin £ is largely in line with budget and costs are being controlled. ETL costs are higher due to its increased sales.
25. Overall, a £3k loss has been generated to the end of June which is largely in line with the budget target and last year. Typically, these businesses are more profitable later in the year due to the cost of the catalogue which is incurred at the start of the year.
26. The full year budget is a surplus of £100k and we expect to be largely in line with this.

### **Full Year Expectation**

27. The ESPO full year budget is a surplus of £5.7m. At time of writing, we are still to complete our peak summer trading period. There are however several risks and opportunities emerging, the most significant being:
  - a. Sales volumes at the start of the year have far exceeded our expectation. Whilst this gives reason to be optimistic, we are seeing customers make greater use of discounts and what looks like some bulk/advance buying. This could result in sales slowing in the second half of the year when schools return after the summer break.

- b. Product cost inflation. ESPO is well known for trying to hold the pricing set out in our catalogue to give customers certainty and an ability to plan their own budgets across the year. High levels of product cost inflation either create additional risk to our budgeted surplus (if we absorb them) or require some deviation from catalogue pricing. As usual, we are trying to protect our customers (which are mainly schools) from the impact as much as we can.
  - c. Framework income via rebates performed well in 21/22 and our baseline for 22/23 starts approximately £0.3m higher than we had assumed in the budget. In addition, our framework income is likely to benefit from inflationary increases that suppliers apply, de-risking some of the above risk.
28. The Local Government pay award. An offer was announced in late July from the national employers which (simplified) was a fixed increase of £1,925 per person. Back in January we budgeted for a 2% increase for 22/23. At time of writing, we are costing the impact but we estimate this to be in the region of £0.8m which would be a 6% average increase across ESPO.
29. Considering all this, our latest guidance for the full year is a trading surplus in the range of £5.6m - £6.1m. (Budget = £5.7m)

### **ESPO Operational Progress**

30. In June ESPO's distribution centre picked and dispatched 249,593 order lines, valued at £7.929m and the transport fleet with couriers made 28,606 deliveries. The peak trading period of June and July was successfully managed, with all customer delivery promises met on time. Warehouse picking was performed at a rate of 27 lines per hour against our target of 32. This is partly a function of the inexperienced agency staff that are employed during the peak season and partly due to a change in the pick profile with greater pack content. The error rate detected by QA was 3% against the budget of 3%. The average order value for stock orders YTD to June was £234.64 compared to £212.80 last year. Operational and IT costs year to June were £3.299m against a budget of £3.056m. Stores sales to June were 16% higher than budget driving higher transport and picking costs.
31. Activity levels across all customer channels were buoyant in Customer Services and the team handled 8,728 calls across the five customer service channels. In terms of call response, the average speed of answer was 51 seconds against a target of 30 seconds. This reflects the increase in calls in the Directs channel checking on delivery times and the current vacancies in the CS team. The team processed 40,177 customer orders valued at £10.177m which includes the orders for the annual summer holiday offer which will be delivered in August. Online and electronic converted orders were at 65% of the total reflecting an increasing trend towards digital ordering via e-catalogues or through the web. Direct orders currently valued at £3.001m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team. Call performance remains positive, with over 91% of all incoming calls answered.



32. Stock availability averaged 92.9% in June, stock value was £7.6m with a stock turn of 6.3. Following earlier disruption in the supply chain we are hopeful that outstanding customer orders will be substantially fulfilled in September. Customers are being kept informed of the latest stock availability through a new improvement to the website which provides visibility of products that have an extended lead time but are still available to order. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at KCS in Maidstone and by its printer in Poland.
33. Facilities management in June included a number of scheduled repairs to the in-rack sprinklers and high-bay racking; mobile and fixed printers; warehouse lighting; warehouse doors and emergency call point repairs. Upgrades were made to the building lighting with LED replacements and the fire damper between the warehouse and offices was serviced. There were also inspections to fire safety system, pest control, intruder alarm and CCTV system with various repairs to and maintenance of equipment throughout the Grove Park facility.
34. There were two minor health and safety incidents in June where a warehouse operative cut their thumb on a paper roll dispenser; tape has been applied to bolts on all applicable paper roll dispensers as further precaution. An office worker spilt hot water onto hand whilst making drink using water from the Hydroboil. No defects were identified with the Hydroboil and it was concluded that this was user error. The safe system of work has been updated for forklift re-charging following a near-miss incident. Similar updates were undertaken on the system for unloading supplier's delivery vehicles and on retrieval from the high bay racking.
35. The IT helpdesk handled 683 enquiries with a 100% satisfaction rating from internal customers. We will be installing a replacement WIFI system into the warehouse and office settings during August and September which will provide much greater strength and resilience into the signal for RDT's and other mobile devices.
36. The work to automate transport planning is making good progress with middleware being written for extracting delivery data from System 21 for input into the Roadshow scheduling system. Eventually this process will be fully automated allowing customer data to be uploaded into the scheduling system which will create a daily transport schedule in a much shorter time and offers greater long-term operational and service benefits.
37. Following the update given to Management Committee in June. The project to extend the Grove Park warehouse is moving forward under the governance of the Project Board. The focus is now on preparing for planning permission and construction contractor procurement with an expected completion of the project in Q2 2024. Further updates will be provided to Management Committee as the project progresses.

## **Staffing**

38. Sickness absence continues to be well managed, and covid infection rates are now decreasing in line with the national picture. Safe working arrangements remain in place for staff in the office to ensure that the potential of any work-based outbreak is reduced as far as is practicable. Reminders have also been provided to staff on the steps they need to follow if they test positive for Covid, to ensure that everyone remains extra vigilant.
39. The national negotiating body for Local Government pay have responded to the Trade Unions pay submission for 2022/23 and have made a final offer of £1,925 on every spinal point, plus a 4% increase on expenses. At the time of writing, this offer has already rejected by Unite with Unison's response expected by the end of September.

## **ESPO Risk and Governance Update**

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

40. 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.

## **Resources Implications**

None arising directly from this report.

## **Recommendation**

The Management Committee is asked to note and support the contents of this report.

## **Officer to Contact**

Kristian Smith, Director  
[k.smith@espo.org](mailto:k.smith@espo.org)  
Tel: 0116 265 7887

## **Appendices**

Appendix 1: Balanced Scorecard  
Appendix 2: CRR extract

## Management Summary Jul 22

### Management Summary

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stores Sales	£6,195,875	£6,483,720	↓ -4.4%	£20,960,055	↑ 9.1%
Direct Sales	£2,085,161	£1,822,401	↑ 14.4%	£7,438,228	↑ 26.2%
Rebate plus fee income	£1,530,519	£1,558,211	↓ -1.8%	£3,905,247	↑ 11.7%
Total Sales (Exc Gas)	£9,844,085	£9,118,741	↑ 8.0%	£32,949,696	↑ 12.8%
Stores Margin %	27.62%	30.70%	↓ (3.08%)	31.30%	↑ 0.60%
Directs Margin %	15.68%	14.80%	↑ 0.88%	14.72%	↓ (0.08%)
Total Gross Margin inc Consumables Cost	£3,640,844	£3,881,110	↓ -6.2%	£12,353,264	↑ 11.8%
Total Expenditure	£1,943,972	£2,021,208	↓ -3.8%	£8,098,951	↑ 2.2%
Surplus	£1,696,871	£1,859,901	↓ -£163,030	£4,254,313	↑ £1,128,636
Net Profit Margin %	17.24%	20.40%	↓ -3.16%	12.91%	↑ 2.21%

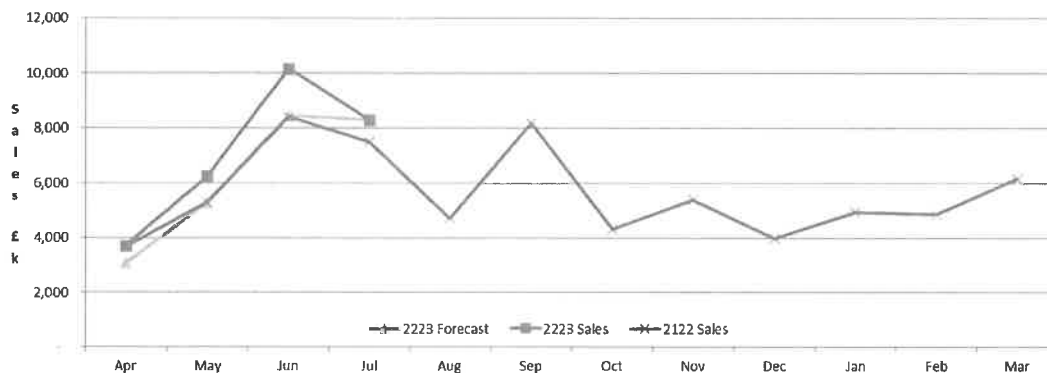
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Eduzone Sales	£35,134	£68,786	↓ -48.9%	£173,330	↓ -35.8%

### Customer Order KPI's

	TY YTD	LY YTD	Var
AOV	£254.04	£231.03	↑ £23.01
Prop of orders over £15	97.4%	97.5%	↓ -0.13pp

### Graph - Sales vs. Forecast

#### Stock & Directs Sales



### HR

	Actual	Target	Var
Sickness Absence Rates *	0%	0.0	↓ 0.0
No. of Apprentices	1	7	↓ -6.0

Comment: Sickness Absence Rates currently unavailable

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

Mandatory Training Completion	Actual	Target	Var
Fraud	93%	90%	↑ 3.03pp
Data Protection	83%	90%	↓ -7.42pp
Equality & Diversity	91%	90%	↑ 0.59pp
Health & Safety	91%	90%	↑ 1.01pp
GDPR	82%	90%	↓ -8.47pp

This page is intentionally left blank

Risk Ref	Category	Risk Description	Consequences / Impact	Risk Owner	Inherent Risk Score			Risk Action Tolerate / Treat / Transfer / Terminate	List of Current Controls / Actions Embedded and operating soundly	Residual Risk			Risk Action Tolerate / Treat / Transfer / Terminate	Further Action / Additional Controls	Q2 Comments / Updates	
					Impact	Likelihood	Score			Impact	Likelihood	Score				
88	IT and infrastructure	Framework CRM database - Supporting ERM+ rebate and £2.5bn+ customer spend Risk of high dependence on bespoke ESPO developed system and knowledge with one individual within IT.	ESPO risks are: 1. Reduced visibility of framework sales data/MI, by customer/sector etc. 2. Reduced ability to forecast rebate income ranges. 3. Potential to adversely impact rebate income. 4. Increased manual workload for procurement teams. 5. Member dividend is based on top frameworks which will not be ascertainable if there is no access to the database. 6. Current database doesn't hold framework details on MSTAR, Washroom Services and CCS collaborations due to difficulties with entering data.	AD Commercial	5	4	20	Treat	1. Tested process for system use. 2. Some data is held within procurement teams at supplier level only. 3. Finance and Commercial teams hold high level framework rebate information. 4. Spirit project to expand data management is currently underway.	1. Actual income to be monitored against forecast and variances reviewed. 2. Delays in provision of MI and/or agreement on rebate levels with suppliers. 3. Reviews between Commercial team and Procurement teams. 4. Reviews between Commercial and Finance team. 5. Status of the Spirit project.	4	3	12	Treat	1. Implement new Spirit system. 2. Build a centrally held pipeline for customer spend. 3. Consider development of a supplier portal for uploading of MI from 2,500+ suppliers. 4. Consider automation of raising supplier invoices via Spirit CRM. 5. Consider business wide rollout of a CRM system. 6. Consider appointing a supplier to provide a rebate portal.	07/03/2022 New Risk
86	Governance and financial	Inflationary financial risks	Inflationary pressures in a number of areas for a range of reasons (utilities, fuel, containers, supply chain fragility) may impact on delivery of the MTFs and create additional risk/complexity.	AD Finance	5	4	20	Treat	1. Ongoing discussions with suppliers to understand potential impact of cost pressures with commercial team attempting to mitigate as far as possible via negotiating or alternative sourcing. 2. Detailed work on ESPOs pricing strategy to plan how price rises are passed on to customers or absorbed by ESPO. 3. Update of MTFs under a variety of scenarios to understand potential business impact of inflation 4. Forward purchase of gas and electricity needs 5. Monthly financial analysis of product category margin % to identify issues in pricing 6. Monthly Financial Performance Pack reviewed by LT 7. Weekly sales and trading reporting and discussion by LT to understand trading and possible impact of	1. Gross profit % 2. Trading Surplus and variance to Budget 3. Management accounts and variances to budget 4. Weekly trading results 5. Customer feedback (including Feefo)	4	4	16	Treat	1. Develop benchmarking solution to ensure ESPO has sufficient information to remain competitive on pricing 2. Monitor pricing and product margin to understand inflationary pressures and evaluate impact on pricing strategy. 3. Ongoing re-forecast / update of our 'outturn' with scenario modelling	23.5.22. Risk increased from amber to red as a result of: - Higher levels of supplier price increase requests being seen than budgeted - Shortage of paper affecting volumes on a key category - Probably higher pay award given cost of living pressures. (2% budgeted, 4% possible = £0.3m impact)
48	IT and infrastructure	Strategic IT Succession Planning - imminent departure of key staff	1. Unable to manage systems portfolio 2. Business needs not met 3. Service to customers deteriorates 4. Loss of sales & profits 5. Staff morale adversely affected	AD Operations & IT	4	4	16	Treat	1. Review IT strategy and set out IT ambitions in context of business planning and review skills and organisation in IT accordingly. 2. Create a new structure that enables staff to grow into more senior roles. 3. Work with outside partners to deliver some of the technical support functions required.	1. Budget review 2. HR assessment of current structure 3. Process mapping and IT support/automation 4. Delivery of succession plan	4	4	16	Treat	1. Implement Service Review. 2. Delivery of Action Plan 3. Feb 2022 Assess alternative ERP systems Increased probability to 4	Mar 2022 Staff succession planning being considered to minimise risk and increase resilience for any possible leavers or sickness.
79	IT and infrastructure	IT Cyber Security - Range of cyber security threats (Note - separate IT specific risk register maintained and overseen by internal ITDG committee)	Failure to adequately protect ESPO networks, systems and data from malicious attack could lead to a range of potential consequences, including; financial; reputational; operational; legal impacts or other losses.	AD Operations & IT			20	Treat	Range of protections/controls in place, including (but not limited to): 1) Firewalls (outer defences, controlling the border of ESPO network) 2) Automated Threat Protection system (assesses various incoming data (e.g. emails) for potential threats) 3) Antivirus software (Prevents known viruses from executing on ESPO devices) 4) Authentication systems (Controls who can access ESPO systems and data) 5) Staff education (Reduces risk of successful phishing attack) 6) Anti-Ransomware backup solution (prevents hackers from encrypting our backups) 7) External security controls Audit (Highlights areas of concern in ESPO security systems) 8) Penetration testing (probes the ESPO network for vulnerabilities) (Needs further expansion/detail)	1) Firewall logs (contain details on network traffic, including hostile attacks on the ESPO network) 2) Firewall Reports (Daily, weekly, monthly reports on network traffic) 3) External security support partner monitoring (Various support partners issue regular threat alerts) 4) various event logging - systems that monitor and alert on potential concerns (this is a weak area for ESPO and will be reviewed) (Needs further expansion)	4	4	16	Treat	1) Multi-factor Authentication for remote access 2) PKI server for device authentication 3) Revised password policy 4) New Remote Working Policy 5) Penetration Testing 6) DR Testing 7) Staff Training 8) Staff awareness 9) CyberEssentials+ 10) InfoSec Policy Review 11) CyberSecurity Support contract 12) System 21 upgrade 13) Security Health check 14) Patching Policy 15) NCS Active Cyber Defence programme 16) CyberSecurity Risk Register 17) Emergency support partner 18) LCC Audit Response 19) Cyber Security Roadmap 20) CyberSecurity Incident Response The above are either in flight or planned. A supplementary document "ESPO IT Security Plan - April	Jan 2022 Emergency support partner in place
79.1	IT and infrastructure	...above continued		AD Operations & IT			20	Treat			4	4	16	Treat	...Recommend to create a Cyber Security Risk Register to track and manage related Risk, to feed into main Corporate Risk Register. (Further Expansion required for this Risk) 21. Promoting and creating the right culture for reporting mistakes 22. Refreshing Disaster Recovery (Daisy) scenario 28.06.21 Disaster Recovery. Plan to run an organisation-wide scenario in 2021 on loss of systems 28.06.21 Culture & Communications. Promote a culture of openness and honesty in managing individual conformance	
25	Stores Trading	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 Procurement & 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 direct 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 stationary 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. MAT's 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. 9. Continue to explore and maximise exporting opportunities. 10. Review approach to recruitment and retention of key procurement/commercial staff. 11. Consider bidding for the CCS tail spend tender issued in June 2021	01/03/22 Reviewed - no updates.
80	Procurement - Trading	The Green Paper for Transforming Public Procurement contains areas of potential risk for ESPO. Lack of clarity around proposals at this stage adds to the concern. Main areas of concern are: Proposal for more flexible procurement procedures may devalue the protection afforded by frameworks. Customers may decide to procure themselves. More flexible procedures lacking detail - risk to ESPO if it attempts to pioneer use of these. Increased transparency rules bring greater administrative and compliance burdens and unclear expectations from Cabinet Office procure contracts without the usual	Customers may choose to undertake their own procurements and not use frameworks - fall in rebate income. Risk of court challenge if new procedures used incorrectly. Current procurement structure may need reassessment to ensure compliance with transparency rules. Risk of being sued for inappropriate transparency or for not being transparent enough.	AD Procurement & Commercial	5	3	15	Treat	Better engagement through CRM's Continued engagement with legal advisors to gauge customer tendencies Canvass opinion from member authorities to understand what it means to them/what their intentions are. Manage customer messages to intensify the 'safe framework' message. ESPO stick with Open Procedure until new flexible procedures are clarified and tested. Ensure procurement team is adequately resourced to ensure transparency compliance. Create a Transparency/Governance unit within procurement. Update processes & procedures to reflect new requirements.	Fall down in number of customers using our frameworks. Insufficient resource to manage increased administration required.	5	3	15	Treat	1. Develop ESPO's procurement strategy to take account of the newly released National Procurement Policy Statement 2. Work closely with LCC and other PBOs to develop joint approach. 3. Through chairmanship of the PBO forum ensure that representatives from the Cabinet Office attend to provide regular updates on policy in relation to the Procurement Bill development 4. Ensure that ESPO has representation on the planned Cabinet Office training advisory body for new procurement rules - push for central funding. 5. Put in place an ESPO procurement steering group to support the transition to new ways of working 6. Ensure adequate legal resource is in place from LCC to support the transition to new procurement rules.	01/03/2022 - additional control added
78	Supply chain	Supply chain risk - including corona virus, Brexit and Conflict in Europe	1. 'Stock supply shortages for products or components that are made in Far East. 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. 5. Buying price risk due to increased freight costs may mean a reduced margin. 6. Driver shortage in the market could affect deliveries to ESPO and our ability to deliver to our customers on time.  • Staff complacency and not adhering to controls in place. • All risks as identified previously coming to fruition due to further restrictions introduced. • Supply chain disruption in the event of further lockdowns both in UK and elsewhere.	Director	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 ESPO 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 Optimisation team.	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 • Continued enforcement of existing controls by managers • On-going staff briefings and reminders. • On-going Covid-19 secure monitoring by ESPO Health and Safety Advisor and LCC.	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. 04.03.2020 ESPO update on Coronavirus Report discussed at Mgmt. Committee. 06.03.2020 Teleconference with LCC. • All risk assessments and guidance fully aligned with LCC. • Internal meetings took place regularly during height of pandemic. Frequency reduced due to new 'BAU'. Would resume if required. • Comms on-going • Forthcoming work on building modifications and a new people strategy to support new ways of working.	02/09/21 Reviewed - no updates.
78.1	Supply chain	...above continued	... 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	Director	4	4	16	Treat	.... 8. Work closely with staff agency partners to source staff across the logistics, procurement and financial sectors. 9. Continue to manage supply chain risk through Supply Chain Panel, PAG and CMG. 10. CMG and Contracts Panel will be made aware of price increases and impacts assessed by Finance 11. Aim to resist price increase 'within year'		4	3	12	Treat		

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank