EASTERN SHIRES PURCHASING ORGANISATION
A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM
CONSORTIUM SECRETARY: LAUREN HASLAM,
DIRECTOR OF LAW AND GOVERNANCE,
LEICESTERSHIRE COUNTY COUNCIL

Date:	12 March 2024
My Ref	CT/ESPO
Please ask for:	Anna Poole
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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, 20 March 2024 at 10.30 am in the Sparkenhoe Committee Room, County Hall, Glenfield.

Members are reminded that a buffet lunch will not be provided after the meeting, although liquid refreshments will be available. Members are welcome to use the canteen at County Hall if they wish.

Yours faithfully,

Anna Poole
for Consortium Secretary

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 15 November 2023.		(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. *There are no specific items referred. The issue considered by the Subcommittee is covered in item 10 which appears elsewhere on the agenda.*		
5.	Director's Progress update.	Director	(Pages 7 - 22)
6.	Date of Next Meeting. The next meeting of the Committee is scheduled to take place on Wednesday 12 June 2024 at 10.30am at County Hall, Glenfield.		
7.	Any other items which the Chairman has decided to take as urgent.		
8.	Exclusion of the Press and Public. *The public are likely to be excluded during consideration of the remaining 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 23 - 36)
10.	Budget 2024/25.	Director and Consortium Treasurer	(Pages 37 - 56)

Agenda Item 1

Notes of an inquorate meeting of the ESPO Management Committee held at County Hall, Glenfield on Wednesday, 15 November 2023.

PRESENT

Cambridgeshire County Council
Cllr. S. Ferguson

Lincolnshire County Council
Cllr. A. Hagues
Cllr. S. Rawlins

Leicestershire County Council
Mrs. M. Wright CC (Chair)
Mr. J. Poland CC

Apologies

Apologies were received from:
Cllr. A. Jamieson (Norfolk County Council), Cllr. J. James (Norfolk County Council) and Cllr. N. Shailer (Cambridgeshire County Council)

In attendance

Cllr. M. Farooq (Peterborough City Council – Online)
Cllr. J. Howard (Peterborough City Council – Online)
Cllr. R. Baxter-Payne (Warwickshire County Council – Online)

ESPO
Kristian Smith – Director
David Godsell – Assistant Director
Dave Goodacre – Financial Controller
Maurice Campbell – Assistant Director
Gary Ford – Assistant Director

Leicestershire County Council
Simone Hines – on behalf of the Consortium Treasurer
Rosemary Whitelaw – Democratic Services Officer

25. Minutes of the previous meeting.

The minutes of the meeting held on 20 September 2023 were taken as read, confirmed, and signed.

26. 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 Item 5 on the agenda – 2022/23 Financial Statements and Annual Governance Statement.

27. Urgent Items.

There were no urgent items for consideration.

28. Declarations of interest.

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.

29. Items referred by the Finance and Audit Subcommittee.

There was one item referred by the Finance and Audit Subcommittee, the 2022/23 Financial Statements and Annual Governance Statement. The report is attached as Agenda Item 5 (minute 33 refers).

30. Change to the Order of Business.

The Chairman sought and obtained the consent of the members present to vary the order of business from that set out on the agenda.

31. Warehouse Extension Update.

The members present considered a report of the Director of ESPO which provided an update on the project to develop the Grove Park site to accommodation additional warehouse capacity as part of the agreed long-term financial plan. A copy of the report marked ‘Agenda Item 6’ is filed with these minutes.

Members were pleased to note that the programme of work had now started and thanked officers for their preparatory work on the project.

It was explained that the warehouse extension would be used for bulk storage rather than picking activity. This would create more space in the main warehouse and allow for greater efficiency, for example conveyors could take bulk stock directly to the packing area.

To protect long term viability, ESPO was looking to drive costs down, through routes such as mechanisation. The current head count would be protected but it was intended that processes would be redesigned so that they were quicker and enabled ESPO to remain competitive in the market.

Members present noted the update on the project to develop the Grove Park site to accommodate additional warehouse capacity with support.

32. Director's Progress update.

Members present considered a report of the Director which provided an update of the actions and progress made since the previous ESPO Management Committee meeting held on 20 September 2023. A copy of the report, marked ‘Agenda Item 7’, is filed with these minutes.

In presenting the report, the Director advised members that there would be a presentation on the People Plan at the next meeting of the Management Committee.

In response to questions, the Director explained that:

(i) ESPO had benefitted from purchasing warehouse stock at last year’s cheaper prices. It was recognised that this position was not sustainable, however ESPO was considering innovative ways in which to maintain the profit margin.

(ii) Officers were confident in the level of wage inflation that had been factored into next year’s budget.

Members present noted the update on actions and progress made since September 2023 with support.

33. 2022/23 Financial Statements and Annual Governance Statement.

Members present considered a joint report of the Director and the Consortium Treasurer which set out the 2022/23 Financial Statements and the 2022/23 Annual Governance Statements. A copy of the report marked ‘Agenda Item 5’ is filed with these minutes.

Members noted that the report had previously been considered in detail by the Finance and Audit Subcommittee. The position with regard to the balance sheet and reserves was welcomed, as was the assessment by the external auditors.

Members present noted the contents of the reports and the recommendations set out therein, as follows:

(a) That the 2022/23 Annual Governance Statement be approved;

(b) That the 2022/23 Financial Statements be approved;

(c) That the dividend pool of £4,369,269 be approved to be paid out in December 2023.

34. Exclusion of the Press and Public.

It was agreed 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.

35. Supplementary Information Informing the Progress Report of 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 9' 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 responded to questions related to Department for Education proposals to change the way in which schools purchased supplies.

Members presented noted the update on actions and progress made since September 2023 with support.

36. Date of Next Meeting.

It was noted that the next meeting of the Committee would be held on 20 March 2024 at 10.30am at County Hall, Glenfield.

10.30 - 11.32 am CHAIRMAN
15 November 2023

Agenda Item 5

ESPO MANAGEMENT COMMITTEE – 20 MARCH 2024

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Report

1. The purpose of this report is to inform Management Committee of the actions and progress made since the last update provided to Members in November 2023.

Background

Financial performance update – 10 months to January 2024

Summary

Year to January 2024 – Period 10					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	48.8	(1.3)	(2.5%)	4.4	10.0%
Direct Sales	16.4	0.0	0.2%	(2.2)	(11.8%)
Rebate plus fee income	10.6	0.8	7.8%	1.3	14.4%
Total Sales (Exc Gas)	**75.7**	**(0.5)**	(0.6%)	**3.6**	4.9%
Stores Margin %	31.1%	1.5%		2.8%	
Directs Margin %	15.6%	1.0%		0.4%	
Total Gross Margin	29.8	1.7	6.0%	3.9	15.1%
Total Expenditure	21.5	0.3	1.6%	(1.5)	(6.6%)
Trading Surplus	**8.3**	**2.0**		**2.4**	
Trading Surplus %	10.9%	2.7%		2.8%	

2. After 10 months, **a surplus of £8.3m has been made which is £2.0m better than budget** and £2.4m higher than last year.

3. Rebate income from frameworks is performing very well at +£0.8m ahead of budget and this is a part of ESPO's business which benefits from inflation. ESPO's prudent approach to budgeting framework rebate recognises the significant impact under/over delivery has on the ESPO bottom line (it has a 100% gross profit margin). The budget assumed slightly higher growth in the second half of the year and whilst a small amount of the gains seen in the first half were due to timing, it is expected to be largely in line with budget in the final quarter.

4. In ESPO's catalogue business the market remains very competitive but ESPO's offer remains strong. Gains in market share continue through the combination of

availability, pricing, and service offer. Despite increasing prices in the last 1 April catalogue due to supplier inflation, catalogue sales in the first half of the year were in line with budget, before softening after Christmas with many schools limiting their spending towards the end of the financial year. This recognises the tough financial position they are in from high levels of inflation on pay, energy, and goods/services. ESPO's margin in the first half of the year has benefitted from warehouse stock bought at last year's lower prices, and a more settled supply chain.

5. Costs continue to be tightly controlled with expenditure of £21.5m better than budget by £0.3m.

6. For the full year, the budget is a surplus of £6.2m, and at January 2024 ESPO remains ahead of this. Based on recent trading ESPO remains cautious about demand in the last months of the year, with feedback from schools and British Educational Suppliers Association (BESA) indicating weak confidence remains for Q4 and a likelihood of school spend being 'reigned in' now their core annual purchases have been made. We also note that Schools confidence for 2024/25 is improving.

7. **Our latest guidance for the full year is a trading surplus of £7.8m - £8.1m.**

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	48.8		(1.3)	(2.5%)	4.4	10.0%
Direct Sales	16.4		0.0	0.2%	(2.2)	(11.8%)
Rebate income	10.6		0.8	7.8%	1.3	14.4%
Total Sales	**75.7**		**(0.5)**		**3.6**	
Stores Margin £m and %	15.2	31.1%	0.4	1.5%	2.6	2.8%
Directs Margin £m and %	2.6	15.6%	0.2	1.0%	(0.3)	0.4%
Rebate income	10.6		0.8	7.8%	1.3	14.4%
Gas Margin	0.3	1.1%	(0.0)	(1.6%)	(0.1)	(1.7%)
Catalogue Advertising	0.6		(0.1)		(0.1)	
Misc	0.6		0.5		0.4	
Total Gross Margin	**29.8**	**39.4%**	**1.7**	**2.4%**	**3.9**	**3.5%**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	26.2		14.6	125.8%	12.3	88.5%
Gas Margin	0.3	1.1%	(0.0)	(1.6%)	(0.1)	(1.7%)

8. **Total sales to January 2024 were £75.7m and are £0.5m behind budget and £3.6m higher than last year.**

9. **Stores sales were £48.8m and are £1.3m behind budget,** with sales starting strongly this year before slowing in more recent months - reflecting both the challenging trading environment and limited funding left within school budgets. Price

inflation applied on 1 April 2023 was on average 19%, and the budget assumed a volume reduction of 8% recognising the funding pressures within schools from inflation, pay, energy etc. Demand/volume was largely in line with this in the first half of the year, with trading slowing in Quarter 4. Throughout the year ESPO has seen customers making good use of its loyalty-based promotions to secure the best value for money and ESPO ran an additional promotion in May 2023 to stimulate demand which was successful.

10. **Gross profit margin percent for Stores at 31.1% is ahead of budget**. Last year margin started to reduce as a result of numerous price rises from suppliers linked to inflation and volatility in the global supply and energy markets. This year has been far more stable. The margin % also benefitted at the start of this year from warehouse stock having been bought at last year's cheaper prices, especially exercise books. As is normal for similar businesses, a stock provision is maintained to cover the risk that discounts may need to be offered to clear any old/slow moving stock, with a cost of £0.3m being recognised which is less than <1% of stores sales.

11. **Directs sales were £16.4m and are in line with budget.** Price inflation applied on 1 April was 15%, and the budget assumed a volume reduction of 20%. This recognised the exceptionally high levels of demand experienced last year and the funding pressures in schools impacting larger purchases, such as classroom furniture and equipment replacement, which could be delayed.

12. **Gross profit margin % for Directs at 15.6% is +1.0% ahead of budget**, but this is largely due to the mix of product sold.

13. **Rebate income of £10.6m is £0.8m ahead of budget** and up 14% on last year. It continues to perform well, benefitting from inflation and the digital pathway created by the new website.

14. Other income is +£0.5m ahead of budget, benefitting from higher interest rates on ESPO's cash deposits.

15. **Overall gross profit margin at £29.8m is £1.7m better than budget.**

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	12.2	1.2	(1.2)
Agency/Contract	1.8	(0.8)	0.3
Total	**14.0**	**0.4**	**(1.0)**
Overhead Expenses			
Transport	2.7	0.0	(0.2)
Warehouse	0.7	(0.0)	(0.0)
Procurement	0.2	0.2	(0.0)
Sales & Marketing	0.7	(0.0)	0.2
Finance	1.7	(0.2)	(0.3)
IT	1.1	(0.0)	(0.0)
Directorate	0.6	(0.0)	(0.2)
Total	**7.5**	**(0.0)**	**(0.5)**
Total Expenditure	**21.5**	**0.3**	**(1.5)**
As % of Total Sales Excluding Gas	**28.5%**	**0.3%**	**(0.7%)**

16. **Total expenditure of £21.5m is £0.3m lower than budget.** A continued focus is retained on strong cost control across all areas.

17. **Expenditure as a % of sales** is one key performance indicator (KPI) which allows cost control in relation to sales to be measured. This KPI was 28.5% and is 0.3% better than budget and shows costs are being controlled in relation to sales activity and inflationary growth.

18. The 2023/24 pay award was settled in December 2023 and this was in line with ESPO's budget assumption.

ESPO Trading Limited/Eduzone

19. ESPO Trading Limited (ETL) and Eduzone are ESPO's limited companies which service the private sector.

ETL and Eduzone			
£k	**Actual**	**B/(w) than Budget**	**B/(w) than LY**
Eduzone Sales	508	(318)	20
ETL Sales	555	41	(278)
Total Sales	1,063	(277)	(258)
Eduzone Gross Margin	192	(98)	23
Eduzone Gross Margin %	37.8%	2.7%	3.3%
ETL Gross Margin	179	20	41
ETL Gross Margin %	32.2%	1.4%	15.7%
Total Gross Margin	371	(77)	65
Eduzone Expenditure	(189)	83	(29)
ETL Expenditure	(109)	(13)	(12)
Total Expenditure	(298)	70	(40)
Trading Surplus	73	(7)	24
Trading Surplus %	6.9%	0.9%	3.2%

20. **Total sales of £1,063k are behind an ambitious budget.**

21. ETL, ESPO's business serving international and private sector customers, is performing well and has benefitted from some earlier ordering ahead of the peak summer international sales period. (Note – last year ETL benefited from a large one-off private sector contract).

22. Eduzone, ESPO's business focusing on early years in the UK, is behind budget, but ahead of last year. The nursery market faces similar financial pressures to schools but lacks some of the additional funding that was announced for schools in Autumn 2022. Combined with an increase in nursery hours for parents, which are less lucrative for nurseries, this puts additional financial pressure on the sector. Sales growth from a planned online campaign was expected but early testing wasn't cost effective and so the campaign was stopped.

23. Margin and expenditure is largely in line with budget and costs are being controlled.

24. **Overall a £73k surplus has been generated which is broadly in line with budget.**

Full Year Expectation

25. For the full year, the budget is a surplus of £6.2m, and at January performance remains ahead of this. Looking ahead, there are several risks and opportunities:

i. BESA and school feedback indicates weak consumer demand being expected across the rest of the year and an element of risk can be foreseen in the catalogue budget, especially in Quarter 4. This was seen in January where catalogue sales were -15% vs budget.

ii. Rebate income has been tracking well all year, benefitting from inflation and continued customer growth. The budget was prudent and officers are optimistic about performance in the second half, but it is important to know that the budget was weighted to the second half of the year. As a result, it is not expected that performance in the second half of the year will exceed budget.

iii. March 2024 is expected to be a slow month as a result of the Easter vacation period, with many schools breaking up one week earlier this year. ESPO also incurs the costs for its catalogues in March. As a result ESPO expects to incur a net loss in March. This is however, all budgeted.

iv. The warehouse building works have started and we anticipate being able to undertake or approve some additional repairs and consequential improvements to the site. These will generally be earlier than planned in the medium term financial strategy (MTFS) and where as a result of already having contractors on site it becomes cost effective and convenient to do so. Depending on timing, funding may be allocated to the renewals provision to allow for this and this could be up to £0.3m. Such items may include roofing repairs, car park resurfacing, and also new external signage for the ESPO warehouse following a pre-Covid update to the logo.

26. Considering all of this, **the latest guidance for the full year is a trading surplus of £7.8m - £8.1m.**

ESPO Profit and Loss

Financial Performance	Year to Date @ January 2024					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	48,760		50,014	(2.5%)	44,338	
Direct	16,354		16,318	0.2%	18,544	
Rebate Income	10,572		9,811	7.8%	9,241	
Total Sales	**75,686**		**76,143**		**72,123**	
Cost of Sales						
Stores	33,574		35,192		31,755	
Direct	13,797		13,921		15,711	
Total Cost of Sales	**47,370**		**49,113**		**47,466**	
Margin						
Stores	15,186	31.1%	14,823	29.6%	12,583	28.4%
Direct	2,557	15.6%	2,397	14.7%	2,833	15.3%
Rebate Income	10,572		9,811		9,241	
Gas	300	1.1%	317	2.7%	391	2.8%
Catalogue Advertising	606		727		692	
Other Income	596		63		165	
Total Margin	**29,818**	39.4%	**28,136**	37.0%	**25,906**	35.9%
Warehouse and Transport						
Employee Costs						
Staff	5,148		5,921		4,466	
Agency/Contract	1,652		939		1,894	
Total	**6,800**		**6,860**		**6,360**	
Overhead Expenses						
Transport	2,680		2,688		2,488	
Warehouse	721		698		690	
Total Warehouse and Transport	**10,201**	20.9%	**10,246**	20.5%	**9,538**	21.5%
Head Office						
Employee Costs						
Staff	7,085		7,503		6,527	
Agency/Contract	123		28		161	
Total	**7,209**		**7,531**		**6,688**	
Overhead Expenses						
Procurement	163		359		140	
Sales & Marketing	652		626		865	
Finance	1,660		1,495		1,379	
IT	1,051		1,045		1,022	
Directorate	599		581		392	
Total	**4,125**		**4,106**		**3,798**	
Total Head Office	**11,334**		**11,637**		**10,486**	
Total Expenditure	**21,534**	**28.5%**	**21,883**	**28.7%**	**20,025**	**27.8%**
Trading Surplus	**8,283**	**10.9%**	**6,253**	**8.2%**	**5,881**	**8.2%**

ETL/Eduzone Profit and Loss

ETL & Eduzone Results	Jan-24 YTD					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Sales	1,062.9		1,339.7		1,321.0	
Total Sales	**1,062.9**		**1,339.7**		**1,321.0**	
Cost of Sales						
Cost of Sales	692.1		891.6		1,014.9	
Total Cost of Sales	**692.1**		**891.6**		**1,014.9**	
Margin						
Margin	370.8		448.0		306.1	
Total Margin	**370.8**	34.9%	**448.0**	33.4%	**306.1**	23.2%
Expenditure						
Employee Costs	125.1		164.2		99.8	
Commission	0.0		0.0		0.8	
Carrier	77.9		86.7		46.4	
Marketing Expenses	69.7		73.9		78.1	
Consultancy	1.9		1.9		2.6	
Support / Legal Prof	0.0		0.0		2.5	
Accountancy	0.4		1.8		4.4	
Insurance	18.9		21.3		17.4	
Office Machine Maint / Software	3.8		3.3		1.7	
Merchant Services	3.8		4.2		1.3	
Other Expenses	(3.8)		10.3		2.2	
Total Expenditure	**297.7**	28.0%	**367.6**	27.4%	**257.3**	19.5%
Trading Surplus /(Deficit)	**73.1**	6.9%	**80.4**	6.0%	**48.8**	3.7%

Operational Progress

27. In January, ESPO's distribution centre picked and despatched 116,239 order lines, valued at £3.889m and the transport fleet with couriers made 16,647 deliveries. Warehouse picking was performed at a rate of 39 lines per hour against a target of 32 and the error rate detected by quality assurance (QA) was 1% against the budget of 3%. The average order value for stock orders in January was £228.03 compared to the budget of £201.93. Operational and Information Technology (IT) costs year to January 2024 were £11.753m against a budget of £11.754m. Stock availability averaged 98.7% in January, the stock value was £9.402m with a stock turn of six.

28. The Customer Services team handled 4,267 calls across the three customer service channels. Average wait times across all teams was 25 seconds with 86% in less than 30 seconds. The team processed 24,953 customer orders valued at £3.933m. Online and electronic converted orders were at 89.7% of the total, aided by the new automated order processing system. Direct orders currently valued at £938k are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team and customers are kept informed of the estimated delivery date. 5,878 responses to email enquiries were recorded using the ticketing system and the customer satisfaction rating was 93.7%. ESPO's FEEFO customer rating improved to 96%.

29. Facilities management (FM) in January ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. All the site washrooms were refurbished and general plumbing repairs undertaken. The glass office doors on the ground floor were reinforced to allow for effective utilisation and future proofing. In conjunction with insurers, the sprinkler fire pump is in the process of replacement and on-schedule; completion planned for end of February 2024. The FM team have been active in supporting the warehouse extension project; liaising with potential forklift truck and racking suppliers and in considering the consequential improvement plan.

30. There were four injuries reported in January. An agency worker grazed their hand during a replenishment operation. An office worker scalded their hand using the Hydroboil hot water (drinks) dispenser, they were attended to by a first aider immediately and hand run under cold water for 20 minutes and burns gel applied. A night shift picker suffered bruising to their shin from a box. A warehouse operative caught their left hand on the edge of a picking trolley causing a small graze to the top of the hand.

31. A dedicated Health and Safety (H&S) risk register has been created to inform the corporate risk register to include specific warehousing and transport risks. This will be reviewed at the bi-monthly H&S meeting. This links to a document control database and ensures that latest risks assessments and safe system of work are in place. New dash cams and sensors have been installed on delivery vehicles from mid-November. This will provide 360 degree visibility for the driver and provide an audible alert if pedestrians are in proximity to the vehicle. This will provide extra safety at the point of delivery and it is envisaged that this will eventually become a legal requirement.

32. The Information Technology (IT) helpdesk handled 484 enquiries with a 100% satisfaction rating from internal customers. It is planned to migrate the hosting of the system from an on-premise to a cloud-based solution using a software as a service (SAAS) delivery model. For uSecure, the staff awareness training system, the overall Risk Score reduced from 144 to 135 (lower is better) – a steady improvement in the overall risk score continues to be shown. All metrics are improving, and course completion rate has improved from 95.9% to 97.2%. The IT team have been involved in preparing for the new catalogue pricing on the web site and in the creation of e-catalogues.

Staffing

Wellbeing

33. As part of ESPO's commitment to employee wellbeing, a health surveillance is being introduced for employees on the night shift. This will be delivered by ESPO's Occupational Health supplier Optima. To support this the Health and Safety team has been delivering bespoke courses to the night shift about managing their sleep patterns and how this will improve their general well-being.

34. Sick absence levels in 2023/24 continue to track lower than in 2022/23 and the rolling 12 months average of full time employment (FTE) days absent was 7.16 in the third quarter of the year (table 1 below). Higher levels of Cough, Cold and Flu / Covid are being seen which is to be expected during the winter season.

35. The three main causes of sick absence during Quarter three 2023/24 were:

    i. Musculo-Skeletal
    ii. Stress/Depression, Mental Health
    iii. Cough, Cold and Flu.

36. Monthly absence case conferences are being held with Heads of Service who have long term cases in their areas. Sickness absence continues to be pro-actively managed by line managers which have had a positive effect on reducing the sickness absence figures.

Sickness absence position

37. The table below details the end of year sickness absence levels of the previous four years, and Quarter 1, 2 and 3, 2023/24.

	19/20	**20/21**	**21/22**	**22/23**	**23/24 Q1 Jun 23**	**23/24 Q2 Sept 23**	**23/24 Q3 Dec 23**	**Total FTE days lost 01/01/23– 31/12/23**
ESPO	7.20	6.80	8.64	8.28	7.50	7.97	7.16	2,298.68

Audit on Hybrid Working at ESPO

38. This has now been completed and the opinion of the Internal Audit and Assurance Service was that there was Substantial Assurance that hybrid working is embedded in the organisation to ensure that performance levels and requirements are maintained, staff wellbeing support is adequate, satisfactory health and safety and data security arrangements are in place and the right tools are readily available both in the office and whilst working offsite.

Resources Implications

39. There are no resources implications arising from the recommendations within this report.

Recommendation

40. It is recommended that the Committee note the update provided by the Director on the actions and progress made since the last update provided to Members in November 2023.

Equality and Human Rights Implications

41. There are no equality and human rights implications arising from the recommendations within this report.

Background Papers

42. None.

Appendices

Appendix A – Balanced scorecard
Appendix B – Risk Review extract

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Appendix A – Balanced Scorecard

Management Summary Jan 24

Management Summary

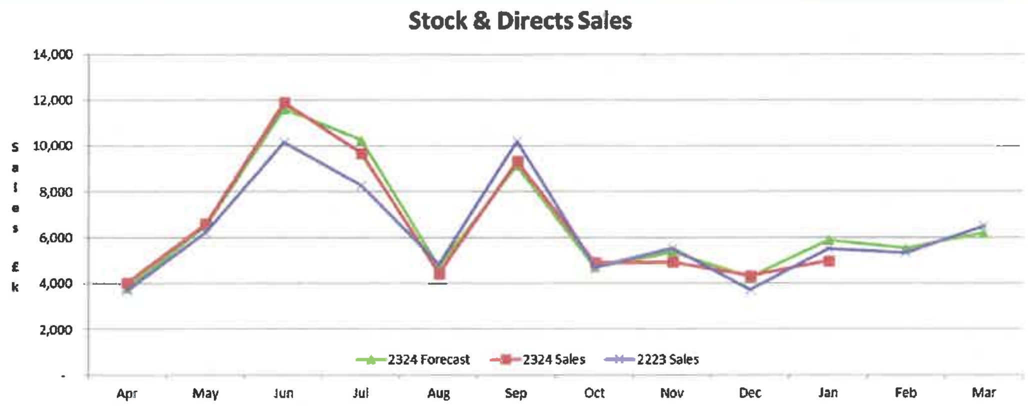
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stores Sales	£3,877,368	£4,550,279	-14.8%	£48,759,564	-2.5%
Direct Sales	£1,099,016	£1,342,755	-18.2%	£16,354,123	0.2%
Rebate plus fee income (£k)	£1,336,007	£1,708,143	-21.8%	£10,572,189	7.8%
Total Sales (Exc Gas)	£6,379,821	£7,630,864	-16.4%	£76,861,350	0.1%
Stores Margin %	34.9%	29.5%	5.37%	31.1%	1.5%
Directs Margin %	13.0%	14.7%	(1.69%)	15.6%	0.91%
Total Gross Margin inc Consumables Cost	£2,928,727	£3,306,835	-11.4%	£29,787,788	5.9%
Total Expenditure	£2,101,654	£2,188,684	-4.0%	£21,522,865	-1.6%
Surplus	£827,074	£1,118,150	-£291,076	£8,264,923	£2,011,520
Net Profit Margin %	13.0%	14.7%	-1.7%	10.8%	2.6%

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Eduzone Sales	£54,971	£86,639	-36.6%	£513,760	-37.8%

Customer Order KPI's

	TY YTD	LY YTD	Var
AOV	£228.03	£201.93	£26.10
Prop of orders over £15	97.1%	96.9%	0.20pp

Graph - Sales vs. Forecast



Appendix B – Risk Review Extract

ESPO

					Inherent Risk Score						Residual Risk								HIDE	HIDE
Risk Ref	Category	Risk Description	Consequences / Impact	Risk Owner	Impact	Likelihood	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	Impact	Likelihood	Score	Risk Action Tolerate / Treat / Transfer / Terminate	Further Action / Additional Controls	Action Owner	Action Target Date		Inherent Risk	Residual Risk
2	Stores Trading and Brand	Web - Failure to meet customers' expectations or requirements leading to loss of business	1. Reduction in the sales of products and use of services. 2. Incomes fall below economic levels required to support current operational needs. 3. Threat to MTFS	AD Business Development	5	3	15	Treat	1. Rolling review of Customer Offer 2. Web development digital roadmap 3. Various customer satisfaction surveys and analysis of feedback. 4. Weekly reviews of operating and financial KPIs 5. Benchmarking against other public & private sector competitors. 6. Compliant procurement	1. Key website operating KPIs (visits, transactions, sales, procurement downloads, CAA, COA) 2. Customer feedback and satisfaction levels 3. If analysis of competitor websites identifies key new functionality or services being offered.	4	3	12	Treat	Deliver website development project. Key upcoming milestones include: - To ensure that we are always on a supported version of Adobe Commerce - Commence delivery of PushOn rolling improvements, including launch of Klevu live search and re-merchandising site - Deliver customer experience (and My Account) functionality (Dec 23) including ability to pay invoices online - SEO optimisation - ongoing - E-procurement integration into website (Jan 24) - New Digital Support Officer role will help mitigate single point of failure - been recruited to and postholder will start in Nov 23.	Head of Marketing	Ongoing	13.11.23 - Web roadmap progress is being monitored on a monthly basis and all actions are underway. Developments planned over the next 12 months. - Issue with customer specific pricing identified across April and May which proved complicated to resolve and hindered progress though. Long term improved solution to price list maintenance in development and estimated to be in place Q1 24. - Skuudle contract now in place and product selection/mapping to competitors is now in progress. Expect benchmarking analysis to start in Q1 24. - On e-procurement, multiple customers waiting for this to be enabled prior to joining ESPO. project launched to monitor SIMS/PS Financials system integration, and work	High	Med
25	Stores Trading and Brand	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 Business Development	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. 8. Work with DfE to promote our offer. 9. Develop proposals to DfE showing savings on key categories or products 10. Ensure that BESA provide challenge to DfE for their	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. 8. Market insight data from BESA, C3 and EdCo	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. 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 next time issued 12. Work with DfE on a set of proposals to show savings to schools on specific products.	AD Procurement & Commercial	Ongoing	13.11.23 Reviewed - Controls/actions and risk indicators updated. DfE are proposing to offer all schools access to Amazon Business via YPO solution. Amazon/DfE update paper going to Management Committee in March and COG at next cycle. Working with BESA to disrupt DfE/Amazon proposal. The team continue to regularly benchmark key products.	High	Med
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 xosts 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 Worldwide. • On-going school closures / partial closures.	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 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 Optimisation team. 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' 12. Mitigate increases through competition, re-sourcing	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 • Continued staff briefings and reminders. • On-going Covid-19 secure monitoring by ESPO Health and Safety Advisor and LCC.	4	4	16	Tolerate	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.	Director	Ongoing	15.6.22 Post risk meeting - residual risk increased to high reflecting discussion about changes (and risk of further changes) in global trading conditions.	High	High
79	IT	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	5	4	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	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	IT action plan created and enhanced following the cyber audit by LCC. This includes controls in place, and enhancements, including: - Creation of cyber security roadmap, specific risk register and incident response processes - New remote working policy including multi-factor authentication, revised password policy and technical measures for device authentication. - Penetration Testing - Disaster recovery policy, testing and third party support - Staff training and to improve awareness, competance and enhance the positive culture of reporting of issues/mistakes - Contracts with specialist 3rd parties to provide regular technical and emergency support - Working towards 'CyberEssentials+' accreditation - Maintenance and development of internal security procedures (e.g. the 2022 version upgrade of our ERP system) Sept 2022 Cyber Insurance policy extended for 1 year. Oct 2022 LT approved Incident Response Policy.	AD Operations & IT	Q1 2021/ongoing	Nov 2023 Migration taking place from Pulse to Miscrosoft Always On VPN .	High	High
80	Procurement - Compliance	The Procurement Bill 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 exposes contracting authorities to litigation risk. There is also a real risk that supliers could become more emboiden to mount legal challenges to procurement decisions umder the new regieme and until it is fully traied and tested. The new Regulations will remain under review and therefore subject to change for at least two	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		Monitoring contracts finder/ find a tender and closer monitoring of customer procurement pipelines 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 developmental 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 reource is in place from LCC to support the transiton to new procurement rules. 7.Ensure new processes and governace procedres reamin under review and in-step with changes to the new Regulations. 8. Continue to invest in staff	AD Procurement & Commercial		13/11/2023 Bill now has Royal Assent. Procurement Steering Group continues to work through White Paper as a working group to redesign processes and possibly re-structure to ensure readiness. We have responded to the Cabinet Office consultation exercise on the draft regulations and guidance. We continue to review the draft bill. NFA	High	High
88	IT	Framework CRM database - Supporting £9M+ rebate and £2.5bn+ customer spend Risk of high dependance 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 Procurement & 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.	Head of Commercial		Nov 2023 no updates	High	Med
91	Governance and financial	Risk of warehouse extension overspend	1. Reduced cash reserves 2. Less appealing investment proposition	AD Finance	5	4	20	Treat	1. Procurement process with prices agreed and fixed where possible at the outset of contracting. 2. Regular reviews of the Cost Plan with the third party project manager (Pick Everard) and main contractor (Galliford Try)	1. Cost overruns agreed/expected evaluation at each stage of the tender process, and as the project progresses.	4	3	12	Treat	1. Continual evaluation of costs and investment appraisal through the Project Board 2. Clear specification for contractors and flexibility on ESPOs part to manage costs 3. Fast delivery plan once planning permission has been obtained	AD Finance	01/12/2022	24.11.23 - Regular oversight operationally and through the Project Board. Contingency remains in place and majority of the work has been tendered with no overspend currently expected.	High	Med

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