



ESPO MANAGEMENT COMMITTEE – 2 MARCH 2015

DIRECTOR'S PROGRESS UPDATE

Purpose of Update

1. The purpose of this update is to inform members of the actions and progress made since the last Management Committee meeting held on 4 December 2015.

Overall Financial Performance

2. Overall financial performance for the nine months to December 2015 can be summarised as:
 - Total sales to December are £64.5m against a budget of £69.3m and the prior year of £65.9m.
 - The key areas of sales shortfall compared to budget are in Store Sales (£2.7m).
 - Rebate income is £3.3m compared the prior year £3.1m.
 - Overall costs as a percentage of sales have fallen to 19.8% from 20.2% last year and compared to 19.1% in the budget.
 - Overall surplus for the nine months is £1.8m compared to a budget of £1.9m.
3. Key figures underlying the total sales to 31 December 2015 are as follows:

	<u>YEAR TO DATE</u>		
	ACTUAL	BUDGET	PRIOR
	£m	£m	YEAR
			£m
<u>SALES</u>			
STORES	32.48	35.21	33.39
DIRECT	14.65	14.91	15.29
GAS	13.18	15.27	13.31
CATALOGUE ADVERTISING	0.80	0.83	0.74
REBATE INCOME	3.35	2.96	3.13
MISCELLANEOUS INCOME	0.07	0.11	0.09
<u>TOTAL SALES</u>	<u>64.53</u>	<u>69.29</u>	<u>65.95</u>

4. The balanced scorecard for December is attached as an appendix to this report. Further detail on financial performance for the nine months to December 2015 can be found in a report elsewhere on the agenda.

External Activities and Developments

PBO and beyond

5. On 7 December, Kristian Smith and I met with TTS where we committed to expanding the ESPO offering of TTS curriculum products. This further enhances our credibility as a resources supplier in the Education Market.
6. During the period, ongoing relationship meetings were held with YPO, Hertfordshire, TTS, Youth Sports Trust and a market insight organisation called JEM.
7. As part of the transfer of exercise book business to Nuco International, Nuco hosted ESPO on a visit to the production facilities of its supply chain in Delhi, India. This was a helpful investment in the relationship of a critical supplier, and in particular further prompts a review of overseas sourcing opportunities.

ESPO Internal Developments

Change Programme (formerly referred to as Business Strategy Projects)

8. Progress on Phase 3 projects are as follows:

- Enterprise Resource Planning (ERP) upgrade

Sitting at the heart of our IT infrastructure, the ERP system (Aurora, supplied by Infor) is due to be upgraded. This will further improve the service we are able to offer our customers and improve the resilience of our IT. A Project Charter has been prepared and an IT Project Manager has been recruited (starting 8 February 2016). Key project kick-off meetings have been held with Infor and Indigo. In addition, new web servers have been procured and installed. This is a critical and key early step in the project.

- Building refurbishment

The building refurbishment programme is well underway. The top floor offices are now complete and the change team are working through the building to facilitate the movements that enable the tradespeople to complete their work. Staff have been complimentary about the new décor and the ease with which the temporary office moves have been undertaken.

As part of the refurbishment, the residual current devices (RCDs) were upgraded to a 30 amp rating in order to comply with current regulations. ESPO's Health & Safety Officer has also taken the opportunity to look at cable management and seating plans in order to reduce trip hazards and improve visibility in the offices.

- Supply chain

The Supply Chain Panel has contributed to improvements in our supplier performance and therefore our order fulfilment process.

Product availability is an effective measure of performance from a customer perspective and our improvement in this area has continued right through 2015. Product availability has been above the 98% service level target right through the autumn and winter months. Market comparisons, with both private and public sector organisations and companies operating similar catalogue sized businesses, show that the average performance is around 96%.

We have now incorporated the Supply Chain role into the Catalogue Team structure. During 2016, we will focus on the next tranche of the Supply Chain, approximately 40 suppliers responsible for 20% of sales.

Staffing

9. Managing sickness absence at ESPO continues to be a high priority with figures showing a slight decline for the financial year 2015/16 as follows:

- Quarter 1 – 12.25 days lost per FTE
- Quarter 2 – 12.03 days lost per FTE
- Quarter 3 – 11.69 days lost per FTE

10. Since July 2015, the number of attendance management cases being managed at ESPO has increased considerably. Three employees have left the organisation due to 'ill health retirement'. Ten formal hearings have taken place or been scheduled with the following outcomes:

Outcome	Number of Staff
Final Written Warning	6
Dismissal	3
Pending (Early February)	1

11. Most line managers have now attended a workshop on 'Managing Sickness Absence within the Workplace' in line with ESPO's policies and procedures. Further training is scheduled in 2016 for the remainder of ESPO.

12. An Employee Engagement Group is due to commence in early March with the intention to improve employee engagement and discuss relevant 'people' and organisational items. This will be chaired by the HR Business Partner with the intention of being a 'positive' forum that focuses on solution-based ideas.

13. On Christmas Eve, we held our annual Employee of the Year Awards, recognising eight of our top employees drawn from teams across the business. They were selected for being an integral part of the wider team, always going the extra mile, making a real difference as an individual, a positive difference to

how ESPO is perceived by our customers, consistently exceeding expectations and possessing both wisdom gained through experience and the passion to embrace change as we continue to grow and succeed.

Istvan Todor, Technical Support Officer	Employee of the Year	Istvan has been central to many of the positive changes that have happened at ESPO. This includes the fast pick zone, CEVA seasonal warehouse and current building refurbishment programme which often requires him to work to short deadlines and unsociable hours to ensure success.
Laura Maitland, Category Manager	Outstanding Contribution	Laura is efficient, proactive and friendly in her approach to work and creates positive relationships within her team, wider ESPO teams and with customers. Her willingness to get involved in all aspects of ESPO life including volunteering to be a Health & Safety representative and Fire Marshall marked her out as an essential member of the ESPO team.
Sandra Sewell, Corporate Account Manager	Special Recognition	With an upbeat and positive attitude, Sandra has built positive relationships with colleagues and customers and these have led to an increased spend by them under the frameworks.

ESPO Operational Progress

Operations

14. A warehouse management software upgrade designed to improve the carrier pack routine has been tested and will be deployed in March. This will streamline the packing process, removing non-value-adding processes. A further enhancement for introducing multiple carriers into the despatch process has been scripted and is being planned. This will enable ESPO to utilise a lower cost courier for small and light weight consignments.
15. Assistant Section Leader Dana Pavolvaska and Warehouse Operative Fruzsina Ferencz were both awarded Employee of the Month for their work in reducing the walk distances between picks, helping to accelerate the picking process and consequently reduce the cost to pick each order.
16. The new ESPO livery will be rolled out across the dedicated transport fleet using the Agrippa system on the large goods vehicles. This will enable us to change the livery at regular intervals. We are expecting delivery of ten new large goods vehicles (LGVs) in March as part of the planned asset replacement programme; subsequently, ten old vehicles will be 'retired' and disposed of at auction.

17. A distribution plan has been created to ensure that the ESPO 2016 catalogue reaches customers at the right time. This will see deliveries being made by the ESPO dedicated fleet and our partner Citipost. A total of 50,000 catalogues will be printed. Through this new process, ESPO will save money on distribution by including catalogues as part of the normal weekly delivery plan.
18. The new powered pallet trucks and stacker trucks have been delivered by Jungheinrich. This equipment will reduce the cost of fork lift truck maintenance over the term of the MTFS. A training regime has been put in place to familiarise the relevant staff with this equipment.
19. Stock availability averaged 99.1 %, ahead of the 98% KPI. The Stock Optimisation Team has been involved in setting up the new stock control process for handling the new sourcing arrangements for exercise books and over 200 new curriculum products that will be featured in the 2016 ESPO catalogue.

Customer service

20. Customer service satisfaction levels continue to be monitored through Feefo the online monitoring and feedback programme. Satisfaction levels have been consistently running between 96-98% for the past six months.
21. We are currently analysing the reasons customers request goods to be returned so we are able to understand if they are service or product related issues. The ultimate aim is to reduce administration and collection costs.
22. We continue to work with Lincolnshire County Council to help resolve the issues in placing orders following the introduction of Agresso. The difficulties schools have had in placing orders with ESPO may help to explain the reduction in sales of around £300k this financial year. Recent trials to “punchout” to the ESPO catalogue have proved successful with a planned roll out, joint communication and “relaunch” of ESPO planned to coincide with the 2016 catalogue.

Sales & Marketing

Campaigns, activities and newsletters

23. ESPO's programme of internal communications goes from strength to strength; December saw the publication of the annual round-up newsletter celebrating 2015 including photographs from events throughout the year and a summary of staff fundraising activity. It also included an overview of the MTFS and the Director's Christmas message.
24. During January, an 'Exercise Books and Papers' promotion was sent out by email and posted to schools across our Member areas with a 7.5% discount for all orders received (quoting the code) before the end of February. This promotion is designed to drive top line sales and generate orders at a traditionally quiet time of year for our Stores' business.

25. Regular communications such as 'Education Bitesize' and 'Corporate Bitesize' will also be received by customers during January with the printed newsletters 'Education Update' and 'Corporate Update' being distributed towards the end of the month and early February.
26. Targeted communications supporting the introduction of the minimum order value service charge will commence in January, and continue throughout February and March before the charge is implemented in April 2016. Communications will also be attached to order acknowledgements, invoices and delivery notes. Further to this, customer emails will be sent to the majority of customers with direct mail sent to those without email addresses on our system. Over the course of three months, it is expected that customers will receive the information a number of times (dependent upon how frequently they place orders), thereby supporting the smooth implementation of this policy.
27. Planning for the launch of our 2016/17 catalogue is now well underway, with customers across Member areas receiving their new catalogues between 9 March and 24 March. Developments for this catalogue include a new range of exercise books, an enhanced range of curriculum products and more SmartBuy products. An internal staff event to launch the new catalogue is planned for 7 March.

ESPO Risk and Governance Update

Audit Reports

28. In the last quarter, audit reports have been issued for staff engagement in the Annual Governance Statement, the replacement energy management system, National Fraud Initiative, and risk management arrangements. For the energy system audit, it was confirmed that all hi recommendations were implemented. All other audits received substantial assurance.

Health & Safety

29. In the third quarter, there were a total of 21 reported incidents. Injuries included seven bruise/bumps, four cut/lacerations, two strain/sprains and one splinter.

The single incident of property damage was a cut seat belt in a delivery vehicle. This is being investigated by ESPO's Transport Team and Leicestershire County Council's Croft Depot (servicing agents). A brief to all drivers from the shift managers has been issued and seatbelts are now checked as part of the pre-op check list.

30. Five near misses related to pallets pushed through in racking. One near miss was of a counterbalance truck being driven at excessive speed. The driver has been interviewed, received further training and will be re-assessed prior to being reinstated to the FLT pool. The walkways are being set out to better segregate pedestrians from forklift drivers.

31. Two investigations were carried out on AssessNet:

- A faulty pallet drag in a delivery vehicle caused the driver to trip. The drag has since been isolated and repaired. The driver suffered a bruise.
- A contractor suffered a deep cut while cutting carpet tiles on site at ESPO. ESPO first aiders administered immediate remedial measures on the scene. The contractor was subsequently taken to the Leicester Royal Infirmary for further checks. The contractor returned to work the next day.

32. There is one RIDDOR report related to an incident in which a driver sprained his ankle exiting his vehicle when the step gave away. The vehicle has been repaired but the driver has been off work for more than seven days.

33. Health & Safety Committee meetings, training and risk assessments are carried out on an ongoing basis.

Corporate Risk Register

34. In January, ESPO's Leadership Team held its quarterly review of Major Risk Records (MRRs).

35. A new MRR to address the Warehouse Management System provider Indigo will be written up.

36. There are seven high risks which are reviewed monthly. These relate to attracting and retaining quality staff; potential governance failures by management; robust business continuity in the event of an emergency; loss of a vetted supplier in Catalogue Procurement; the potential failure of the Optima implementation; failure to protect rebate income and insufficient support for strategic IT implementation.

37. Implementation of new processes, progression of projects, and recruitment of key staff members mean that a number of these risks will drop to within tolerance over the next quarter.

Business Continuity

38. Business continuity plans have been drafted and currently reviewed by key stakeholders. Following final sign off, training will be rolled out to those staff identified as gold, silver and bronze employees as appropriate.

Bad Debt

39. A debt of £6,633.65 has been incurred with JGR Trading Limited. This company purchased old and obsolete stock from ESPO in early 2015. ESPO has taken all available legal measures to recover the debt including High Court and County Court for a judgment (CCJs), regrettably however recovery is now considered unlikely.

Local Government Pay 2016

40. On 3 December 2015, the Local Government Association (on behalf of Local Government pay negotiations for 2016) met with the unions to reach an agreement which took into account the requirements of the National Living Wage from 1 April 2016. Two of the three unions, UNISON and Unite, are recommending that this agreement be rejected.
41. Therefore in the absence of the National Joint Council (NJC) reaching a pay agreement to be implemented in time for 1 April 2016, ESPO has been advised to begin making preparations for employees currently paid on pay points 3, 4, 5 and 6 to have their pay increased in accordance with the National Living Wage (£7.20 per hour), which equates to £13,891 per annum (based on working a 37 hour week). This figure should continue to be paid until such time as the NJC finalises a pay agreement.

Enterprise Resource Planning (ERP)

42. On 15 January, emergency works took place on ESPO's ERP system requiring a shutdown of the server to fix a faulty part. In addition to impacting in-house systems, there was some minor disruption to customers, with order punch-out being unavailable and the catalogue website not showing prices during the shutdown; a message to this effect was on the catalogue website while the engineers were on site. This was planned for a Friday evening and the repair was successful.

Resources Implications

43. None arising directly from this report.

Recommendation

44. Members are asked to note the contents of the report.

Officer to Contact

John Doherty, Director
J.Doherty@espo.org,
0116 265 7931

Appendices

Appendix 1 - Balanced Scorecard