MANAGEMENT COMMITTEE – 28 FEBRUARY 2017

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of Briefing Note

1. The purpose of this update is to inform Members of the actions and progress made since the last Management Committee meeting held on 30 November 2016.

Overall Financial Performance

2. Overall financial performance to December 2016 year to date is outlined below:

- Total sales to the end of December are £60.3m compared to the prior year £64.5m. The largest variances come from gas (£3.7m) and 'directs' (£0.7m). Catalogue sales excluding gas are £50.8m which is down on last year by 1.0%, and 1.8% against budget.

- Rebate income is £3.5m which is £0.1m up on budget.

- Total gross margin is £15.4m, which is up on budget by £0.4m and £1.0m up on the prior year. This is due to the good performance of stores margin, underpinned by effective sourcing activity on key lines.

- Total expenditure is £13.1m compared to a budget of £13.2m, a saving of £0.1m or 0.8%.

- Consequently, surplus is £2.3m compared to a budget of £1.8m, a positive variance of £0.5m. We are optimistic about achieving the £3.9m budget surplus.

3. Key figures underlying the total sales to December 2016 are as follows:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
SALES			
STORES	32,384.8	32,633.9	32,482.8
DIRECT	13,955.1	14,788.5	14,645.7
CATALOGUE ADVERTISING	798.6	873.8	800.7
REBATE INCOME	3,475.4	3,314.0	3,348.5
MISCELLANEOUS INCOME	201.9	127.5	68.3
Total Sales Excluding Gas	**50,815.7**	**51,737.7**	**51,346.1**

4. Gas sales have performed as follows:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
GAS	9,506.2	15,807.7	13,180.9

The reason for the fall in gas sales compared to the prior year is mild weather and reduced wholesale prices. Below is a comparison of kWh invoiced

- April to December 2015: 494,936,385 kWh invoiced
- April to December 2016: 420,148,741 kWh invoiced (-15%)

5. Additionally, the contract price of gas was reduced by 20% with effect from 1 April. The decrease in volume and gas prices does not however impact our margin which is a fixed price and based on number of meters which are 3,548 at December 2016. Year on year, there has been a net decrease of 4% principally down to Nottingham creating its own energy company. The impact on income has been offset by increasing per meter charges.

6. Three significant new customers were added to the portfolio last month (Coventry City Council, Derby City Council (council buildings and schools under Local Authority control) and Calico Housing). The income for these will start to flow through this month as all gas and electricity income is now settled monthly with the supplier, Total Gas &

Power.

7. The balanced scorecard for December is attached as Appendix 1.

ESPO Operational Progress

8. To December 2016, nine months of the financial year 2016/17, Operations has processed and delivered a total of £32.4m of customer orders making 265,829 on-time deliveries weighing 11.42m kg. Warehouse picking was performed at a rate of 35 lines per hour.

9. The night shift is being re-purposed from a picking shift to a replenishment shift, which means it will focus on moving stock from the rear stage to the pick face. This will keep the shift in place to underpin the peak period, but will see a small number of staff being offered voluntary redundancy or being re-deployed to daytime rotating shifts.

10. An action plan for the nightshift restructuring commenced in December 2016 having been agreed with the unions at the Joint Consultative Committee. The consultation process is ongoing and the new structure will come into effect on 1 April 2016.

11. A benchmarking exercise was undertaken to determine whether the current market premium (10% enhancement) for warehouse operatives working a rotating 6am to 2pm and 2pm to 10pm shift should continue in line with the current policy. The local labour market reflects a higher rate of pay than at ESPO and therefore it has been formally agreed that this 10% enhancement should continue.

12. This benchmarking exercise also revealed that employees working a fixed 2pm to 10pm shift were receiving less than average pay and therefore those staff will receive an additional 5% of salary.

13. These market premiums will continue for a period of two years at which time another benchmarking exercise should be undertaken to determine if the enhancements are still required.

14. The transport planning team upgraded its scheduling system, Roadshow, to the latest version. The new functionality will reduce the time it takes to schedule vehicles and also make the schedules visible to the warehouse planning team earlier in the day. This will enable picking staff plans to be created to meet the need. In time, it is envisaged that customer orders can be processed earlier allowing the sales team to offer enhanced service to key customers.

15. Customer sentiment measured by the FeeFo feedback service was 96%. The team has handled 81,033 calls in the financial year to date. This is down 6,381 on last year. We are encouraging customers to transact on-line with us for placing orders and making queries.

16. The stock optimisation team maintained product availability of 99.34% and through close consultation with the buying team have been steadily reducing the number of products that have been discontinued. Stock value was £4.3m with a stock-turn of 7.92.

Staffing

17. There has continued to be a significant reduction in sickness absence over the last twelve-months from 11.04 to 9.71 days lost per FTE, a decline of 13.7%. All sickness absence at ESPO continues to be managed in line with the Attendance Management policy and procedure.

18. The ESPO Leadership Team signed up to the creation of a bespoke induction pack that commenced in January. The new induction ensures starters are fully aware of ESPO's policies, procedures, expectations and key service areas. The feedback received from our first HR and Corporate Inductions has been good.

19. An ESPO exit questionnaire process was implemented in April 2016. High-level analytics gathered over the last six months identify key trends and has enabled collation of suggestions for improvement. This information will be used for workforce planning.

20. HR and Learning & Development have recently delivered training on Attendance, Probation, and Capability management processes and continues to support individual managers on employee relations issues. The Learning & Development Advisor is currently putting in place a plan to ensure all staff complete mandatory training.

21. The Government has confirmed the introduction of an Apprenticeship Levy from April 2017 which is a fundamental change to the way Apprenticeships in England are funded. As employees of the Servicing Authority, ESPO will observe the Apprenticeship Levy in line with Leicestershire County Council HR policy and as such, ESPO will be required to pay 0.5% of its payroll into this levy which equates to £50k per year. The Government has also set a target for organisations to have at least 2.3% of its workforce being employed as apprentices. For ESPO, this would equate to employing apprentices or providing apprenticeship programmes for seven people per year. The Learning & Development Advisor is currently working with ESPO departments to ensure that ESPO meets this target in the 2017/18 financial year.

ESPO Risk and Governance Update

Health, Safety, Wellbeing and Facilities Management

22. There have been no RIDDOR reportable incidents in the third quarter. There have been a total of seven reported accidents. Injuries included strain/sprains (2), cuts (3), and slips/trips/falls

23. A new method for reporting near misses and potential hazards has been implemented. Subsequently, the number of reports has risen alongside staff

awareness, ensuring that best practice is maintained across all areas of the warehouse. Each identified risk is given a named owner who ensures that remedial action is taken followed by awareness raising, training and solution implementation.

24. In January, a trespasser was discovered on site. There was no damage or theft but it has instigated a review of options for improving security. These include improvements to the staff entrance doors, additional swipe card access installations from the warehouse, and audible sounders when door locks are forced.

25. Improvements carried out in the quarter which impact health & safety include:

- Installation of a new access control system following failure of the previous system, and subsequent tidying up of leavers' records.
- Full refurbishment of the warehouse sprinkler system water storage tank following a leak.

26. Quotes are currently being obtained for repairs to the roof which are estimated to be in the region of £80k.

27. ESPO is considering the installation of an electric car charging station to encourage the future use of electric vehicles. This is a direction of travel already being shown by many councils (including Leicestershire County Council) and it would also set an example in our community, encourage staff to consider electric vehicles in future purchases and leases, and is supportive of the Servicing Authority's Environment Strategy to:

- Reduce greenhouse gas emissions to mitigate the rate of climate change;
- Reduce polluting emissions from its operations and from the local transport network;
- Support action to create a healthy environment with reduced pollution and contamination.

28. The estimated cost of installation is £10k to include contingency. Electrical surveys have already been carried out and the existing infrastructure is sufficient to support this development.

Corporate Risk Register

29. ESPO Leadership Team held its quarterly review of Major Risk Records (MRRs) on 17 January 2017.

30. There are eight high risks which are reviewed monthly:

- MRR 08 Potential governance failures by management
- MRR 25 Increased competition
- MRR 34 Robust business continuity in the event of an emergency
- MRR 38 Potential failure of the Optima implementation

- MRR 46 Loss of income through not recovering all we are entitled to through supplier rebates, including on collaboration supply arrangements
- MRR 63 Implications of exiting the European Union
- MRR 64 Energy Contracts financial risk exposure regarding variations
- CPR 03 Capacity to focus on development

31. CPR 03 has recently become high risk as it is identified that there are areas of the business which require additional capacity in order to focus on the development of key initiatives. These initiatives are required to enable ESPO to continue to grow its surplus in future years. It is anticipated that resource will be allocated as required.

32. Previously a high risk, MRR 60 on the non-delivery of the business development agenda to MTFS has been mitigated by resetting the MTFS targets, which acknowledges a shallower pace of surplus growth in the core business and overlays the net impact of development initiatives when achieved.

Resources Implications

33. None arising directly from this report.

Recommendation

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

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Appendices

Appendix 1: Balanced Scorecard