



## MANAGEMENT COMMITTEE – 21 JUNE 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 28 February 2017.

#### Supplier of the Year

2. ESPO has won the award for 'Supplier of the Year' after submitting a successful entry to the BESA Education Resources Awards 2017 in the category of 'Supplier of the Year: over £10m turnover'; this is its highest available accolade. This logo can now be used on upcoming marketing material and on the website.

#### Overall Financial Performance

3. Overall financial performance to March 2017 year to date is outlined below:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
<b>SALES</b>						
STORES	41,847.0		42,814.0		41,673.7	
DIRECT	18,213.7		20,198.5		19,274.3	
CATALOGUE ADVERTISING	875.6		955.0		904.2	
REBATE INCOME	6,049.7		6,108.0		6,108.2	
MISCELLANEOUS INCOME	283.5		170.0		124.3	
<b>TOTAL SALES</b>	<b>67,269.4</b>		<b>70,245.5</b>		<b>68,084.6</b>	

- Total 'controllable' sales are broadly in line with prior year.
- Rebate income is £6.0m which is 1.0% down against budget;
- Total gross margin is £21.6m, which is up on budget by £0.3m and £1.1m 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 £17.4m compared to a budget of £17.5m, a saving of £0.1m or 0.5%;
- Consequently, surplus is £4.2m compared to a budget of £3.9m, a positive variance of £0.3m.

4. Gas sales have performed as follows:



The difference in gas sales compared to the prior year is due to lower usage and reduced wholesale prices. Below is a comparison of kWh invoiced

- April 2015 to March 2016: 783,675,468kWh invoiced;
  - April 2016 to March 2017: 672,487,877kWh invoiced (-14%).
5. It should be noted that although the volume of gas supplied was lower and pricing achieved was reduced, the income achieved by ESPO actually grew as a result of new customers joining the portfolio. Income is generated through a fixed charge per meter, and is therefore not affected by the energy price or volume consumed by customers.
  6. A reduction in volume was a contributory factor in the reduced 'sales' value. ESPO's centrally billed gas customers consumed 14% less (672m kWh's in 2016-17 compared to 784m kWh's in 2015-16) in 2016/17 as a result of a warmer winter and energy reduction measures implemented by customers.
  7. As well as volume, gas 'sales' out-turned lower in 2016/17, due to a substantially lower price being achieved as a result of the forward buying strategy. This resulted in prices 12% lower than in the previous year.
  8. Wholesale prices fell significantly during 2015 and early 2016 to levels not seen for over eight years. Following consultation with the key stakeholder group, a departure from the agreed buying strategy was approved to enable forward buying of large volumes of gas for supply during the 2016/17 and 2017/18 financial years. This will provide budgetary certainty and protection.
  9. The benefit of this decision will therefore continue to be enjoyed by ESPO's customers until April 2018, and is now protecting them from subsequent increases in prices following the UK's decision to exit the European Union. A proportion of the volume required for 2018/19 has also been hedged, but the balance will be purchased at prevailing rates. If prices do not fall back in the meantime, this will nevertheless dilute the impact in 2018/19 of the full rise in wholesale prices.

10. The balanced scorecard for March is attached as Appendix 1.

### **ESPO Operational Progress**

11. For the financial year ended 31 March 2017, Operations has processed and delivered a total of £41.9m of customer orders making 208,721 on-time deliveries weighing 15.02m kg. Warehouse picking was performed at a rate of 35 lines per hour. The average order value for 2016/17 was £120.67 a 9% increase over last year. Operational costs as a proportion of sales were in budget at 20.4%.
12. Customer sentiment measured by the FeeFo feedback service was 98% positive. The team has handled 191,011 calls in the financial year to date. This is down 4,491(4%) on last year, reflecting the market but also the impact of the Minimum Order Value (MOV). We are encouraging customers to transact on-line with us for placing orders and making queries. Currently, 24% of orders are processed online.
13. The stock optimisation team maintained product availability of 99.54% and through close consultation with the buying team have been steadily reducing the number of products that have been discontinued. Stock value was £5.355m with a stock-turn of 7.82. (Stock- turn is the number of times in a year we turn our stock over. For example if our cost of sales are 50 million per year and we have 5 million of stock we turn our stock over 10 times per year. The higher the number the better, it indicates good stock control).
14. 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 came into effect on 1 April 2017.
15. A benchmarking exercise was undertaken to determine whether the current market premium (10% enhancement) for warehouse operatives working a rotating 6 am to 2 pm and 2 pm to 10 pm 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 and also prompted the introduction of a 5% enhancement for those working on a permanent late shift.
16. 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 appropriate.
17. 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.

18. A stock count at the Leicester warehouse and the Felixstowe out-base was conducted in line with year-end protocols, with no issues highlighted.

### **Staffing**

19. The HR & OD Business Partner commenced working at ESPO for four-days per week with effect from 1 April 2017 to strengthen, support and deliver ESPO's people agenda.
20. ESPO's Procurement and Compliance team has undertaken the Myers-Briggs Development programme in order to have a better appreciation of their individual personal profiles. This will be built upon to further enhance performance within the team.
21. Mandatory training has been communicated to all ESPO staff and Phase 1 (Promoting Fairness & Respect (Equalities), Data Protection and Information Security, Fraud Awareness and Introduction to Health and Safety) is being successfully rolled out across the organisation with a good completion rate particularly in the Operations department.
22. Leicestershire County Council has agreed to provide insurance training to the Procurement and Compliance team in order to have a better knowledge of insurance requirements within tenders documentation, as well as creating and establishing new frameworks.
23. Apprenticeship opportunities are currently being discussed with all heads of service to align business needs and comply with our public sector duty to provide seven apprenticeships.
24. Attendance management and capability (performance) training was rolled out to section leaders and managers in April 2017.
25. Sickness absence continues to be managed in line with the policy and procedures and is currently at 9.75 days lost per FTE as at 31 March 2017. In 12 months, ESPO has reduced its sickness absence days lost by approximately 700 days.
26. The number of employee relations cases at ESPO has significantly increased with managers feeling better supported to deal with behaviour at work and managing performance issues which are either supported or led by HR.

### **ESPO Risk and Governance Update**

#### **Health, Safety, Wellbeing and Facilities Management**

27. There was one RIDDOR reportable incident in the fourth quarter involving a Powered Pallet Truck which resulted in an injured foot.

28. Further, there were two strains or sprains, one bruise or bump and one person hit by an empty tote which did not result in any injury.
29. The Leicestershire County Council audit of Health & Safety was signed off in January with all supporting documentation provided to show adequate systems in place, such as document control, risk assessment register, and safe system of work documentation.
30. The security doors have been upgraded and quotes are being obtained to enhance building access security from the south end of the building (the service yard).
31. Quotes are currently being obtained for repairs to the roof which are estimated to be in the region of £130k. Floor repairs in the warehouse have taken place in April. Lighting improvements are ongoing in the warehouse, the benefits to the working environment are already being noticed.
32. The insurers (AIG) undertook a loss prevention inspection in February, rating ESPO as adequate to excellent. They did raise an issue about the current specification of the warehouse sprinkler heads; an independent contractor has been called in to inspect and advise on a solution.
33. The ESPO Leadership Team reviewed the tenders received for the installation of two electric car charging stations and support their installation. The cost of installation is less than £10k with an annual maintenance cost of c. £250 pa. Users will be recharged for usage.
34. In January, novice drivers completed fork lift reach truck licence. In March, all staff licenced on Manual Handling Equipment underwent refresher training.
35. In January, ESPO sent representatives to the Leicestershire County Council Workplace Wellbeing Group and ESPO's Health, Safety and Wellbeing Advisor subsequently set up a task and finish group to look at engaging ESPO staff in activities.

#### Corporate Risk Register

36. A separate paper has been prepared in response to a request from Management Committee for additional information on Major Risk Records which flag corporate risks which exceed risk tolerance.
37. ESPO Leadership Team held its quarterly review of Major Risk Records (MRRs) in May.
38. There are six high risks which are reviewed monthly:
  - MRR 25 Increased competition
  - MRR 38 Potential failure of the Optima implementation

- MRR 58 Risk of loss of major supplier on MSTAR framework resulting in disruption and/or loss of supply for customers and loss of income for ESPO
- MRR 63 Implications of exiting the European Union
- MRR 64 Energy Contracts financial risk exposure regarding variations
- CPR 03 Capacity to focus on development

39. The following risks have recently been mitigated to within acceptable tolerances:

MRR 46 Loss of income through not recovering all we are entitled to through supplier rebates, including on collaboration supply arrangements has been mitigated to within acceptable tolerances

This risk has been mitigated through:

- Monthly scrutiny of top frameworks performance
- 'Gap analysis' in senior team meetings
- An in-house Customer Relationship Management system supporting data collection

MRR 08 Potential governance failures by management

With robust processes in place across a wide range of governance matters, ESPO's Leadership Team is confident that there is a reduced likelihood of a governance failure.

40. At the request of ESPO, Leicestershire County Council's Internal Audit Team recently undertook a desktop review of the MSTAR supply chain and flagged it as 'partial assurance'. This framework reflects a £1bn managed spend which contributes to 6.7% of ESPO's rebate income. Because of the risk identified within ESPO and confirmed by Audit, MRR 58 related to this framework has been rewritten, its residual risk level raised, and a comprehensive risk review and mitigation plan included.

### Modern Slavery and Human Trafficking

41. The Modern Slavery Act 2015 was enacted to make provision about slavery, servitude and forced or compulsory labour and about human trafficking, including provision for the protection of victims.
42. Stemming from this, the Transparency in Supply Chains provisions place legal obligations on all organisations above a certain turnover, and with UK operations, to publish an annual statement disclosing the steps that they are taking to ensure there is no slavery or human trafficking in their business and supply chains.
43. While ESPO, as a Local Authority Joint Committee, does not meet the definition of organisations covered by the Act and, therefore, is not required to publish a statement, as a professional, responsible and ethical public procurement organisation, ESPO should take steps to address risk including slavery and human trafficking in its supply chains, through contracts for goods and services destined

for framework, catalogue and other customers, and through its own contracted supply chains, in particular for agency staff.

44. This not only represents good practice, but is likely to be something that like-minded customers will require, and to fail to do so would give rise to increased supply chain and reputational risk.
45. Therefore, ESPO is in the process of finalising its statement which will be published on its website. The draft statement is attached as Appendix 2.

### **Resources Implications**

46. None arising directly from this report.

### **Recommendation**

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

### **Officer to Contact**

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### **Appendices**

Appendix 1: Balanced Scorecard

Appendix 2: Modern Slavery and Human Trafficking 2016-17 Statement (DRAFT)

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