Agenda Item 7

ESPO

MANAGEMENT COMMITTEE – 20 SEPTEMBER 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 21 June 2017.

Overall Financial Performance

2. Overall financial performance to July 2017 year to date is outlined below:

COMBINED PRELIMINARY	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	15,879.9		16,279.0		16,578.1	
DIRECT	5,284.2		6,433.0		6,215.4	
CATALOGUE ADVERTISING	695.4		812.2		759.0	
REBATE INCOME	1,476.4		1,144.3		1,144.3	
MISCELLANEOUS INCOME	32.7		74.3		83.8	
TOTAL SALES EXC GAS	23,368.6		24,742.9		24,780.6	

- Total 'controllable' sales are 5.6% down on budget and 5.7% down on prior year. The primary driver are direct sales. Stock sales are also down, however by the end of August, stock sales will be in line with MTFS.

- Rebate income is £1.5m which is £0.3m up on prior year.

- Total gross margin is £7.4m, which is down on budget by £0.1m and in line with prior year.

- Total expenditure is £5.9m compared to a budget of £6.2m, a saving of £0.3m or 5.4%. This is primarily down to carrying vacancies in Operations and Commercial structures, further compounded by recruitment challenges in Procurement.

- Consequently, surplus is £1.6m compared to a budget of £1.3m, a positive variance of £0.3m.

3. Where ESPO is responsible for trading in Gas, performance is as follows:

	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
GAS	4,053.2		5,209.7		5,158.1	
Margin Earned on Gas Points						
GAS	115.4		119.9		65.4	

In all other energy activity, the impact is realised through rebates.

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 2016 to June 2016: 234,579,298 kWh invoiced;
- April 2017 to June 2017: 197,065,407 kWh invoiced (-16%)

4. The balanced scorecard for July is attached as Appendix 1.

<u>ESPO Operational Progress</u>

5. For the first quarter of the financial year ending 31 June 2017, Operations has processed £10.7m of customer orders making 27,419 deliveries weighing 4.17m kg. Warehouse picking was performed at a rate of 32 lines per hour, improving on the target of 28 lines per hour. The average order value was £154.25, a £9.59 increase over last year. Operational costs were £2.015m against a budget of £2.204m, a saving of £189k. Costs are 15.9% as a proportion of sales. We entered the peak trading period in good shape ready for the challenges ahead and performed exceptionally well.

6. Customer Services handled 26,000 telephone calls with an abandonment rate of 2.9% against a budget of 3%. Customer sentiment measured by the Feefo feedback service was 92% positive. 23% of order-lines were processed online which is static compared to 2016/17. Work continues with commercial colleagues to understand how to encourage our educational customers to engage more fully on-line.

7. The Stock Optimisation team maintained product availability of 99.2% and stock value was £6.255m with a stock-turn of 6.5.

8. The action plan for the nightshift restructuring has now been concluded and the new structure has now come into effect. This enables the replenishment function to be predominantly carried out overnight.

9. An action plan has been launched to handle anomalies in the payment of shift allowance to staff who work permanent late shift. This is due to come into effect from April 2018.

Property Lease Renewal

10. ESPO would like to renew the lease on its Welsh depot based at Unit 4, Cwmtillery Industrial Estate, Cwmtillery, Abertillery, Wales, NP13 1LZ. The property has been leased from Kimax Estates Limited since 2012. The current rental cost is £12,500 pa and the proposal is to increase this to £13,500 pa fixed for the duration of a five-year lease agreement.

11. The trading and profit & loss account confirms that the Welsh revenue is stable and the operation is profitable. Sales and margin over the medium term are forecasted to remain at this level.

12. A five-year lease with a three-year break clause under the existing terms and conditions is proposed but at the different rate of £13,500 pa is proposed. The lease would run to December 2022 with the break clause coming into effect from 2020.

13. The original rental cost in December 2012 was stepped over five years from £9,060 in 2012 to £12,457 in 2016. This agreement will finish in December 2017 and the landlord has indicated that he now wants to fall in line with the rest of his properties and indeed the market leasing prices for this area. The landlord has indicated that £13,500 per year would be a fair reflection in comparison to similar units.

14. The Welsh depot is a fundamental part of ESPO's sales strategy for Wales and underpins the delivery of catalogue products to ESPO's customers in Wales. Comparable commercial property rentals in the area suggest that the proposed rental is at a competitive market rate. The manager and delivery drivers have been recruited from the Abertillery area and to maintain stability it would be preferable to remain on the existing site.

15. Solicitors acting for Kimax Estates Limited are Gabb & Co. Acting for ESPO is Leicestershire County Council's Commissioning Manager for Estates. It is proposed that Leicestershire County Council Property Services agree the new lease with the landlord's solicitors.

Staffing

16. A restructure of night operations is now complete; this shift has now been repurposed to stock replenishment only. The restructure has resulted in two compulsory redundancies. Where possible, other staff have been redeployed onto different shifts and/or been provided with upskilling opportunities. Upskilling has allowed those staff to maintain previous pay levels while providing ESPO with the right range of skills to support the business needs.

17. Apprenticeships are in the early stages of development, as we seek to set the appropriate standard and find the most suitable training provider. Potential apprenticeship opportunities have been identified in the following areas:

    - Two in IT Services
    - Two in Operations
    - One in Procurement
    - One in Business Administration
    - One in Catalogue Production

18. From 1 April 2017, a revised sickness absence reporting and calculation method was implemented for ESPO. This brings it in line with Leicestershire County Council's reporting method.

19. Progress on training has been made in a number of areas to update the following:

    - HR policy training on 'Behaviour in the Workplace and Disciplinary and Grievance Procedures' has been written and will be rolled out to line managers from September 2017;
    - HR is currently writing the training for disciplinary panel members and investigating officers courses with the intention to roll these out in September 2017;
    - Insurance training for the Procurement and Compliance team has been developed by Leicestershire County Council and is due to be delivered in September 2017;
    - Following an in-house push to complete mandatory training, completion rates for the e-learning data protection module are exceptional.

ESPO Risk and Governance Update

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

20. Following the fire at Grenfell Towers, ESPO is engaging an independent company to review the original cladding specification and will inform Members of their assessment.

21. In response to the insurer's (AIG) loss prevention inspection undertaken in February, the sprinkler heads in the warehouse are being upgraded in October.

22. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) in May. The next review has been scheduled for 26 September 2017.

23. In the second quarter, the reported incidents and accidents included two cuts, one bruise, and three near misses. All injuries were minor.

24. Leicestershire County Council Internal Audit carried out an Employee Health & Safety Audit and gave substantial assurance.

25. There are six high risks which are reviewed monthly and these can be reviewed in Appendix 2.

26. A further audit is being conducted by Leicestershire County Council's Audit Team in relation to MRR58 Risk of loss of major supplier on MSTAR framework which could result in disruption and/or loss of supply for customers and potential loss of income for ESPO. All suppliers are aware of this further audit.

27. Previously a high risk, MRR 64 Energy Contracts financial risk exposure regarding variations was recently mitigated to within an acceptable level. This is because the Governance mechanism mitigates volume risk with the price risk managed through the pricing and risk strategy, triggers and stop loss price points which are reviewed weekly. The potential impact of the price risk has been further mitigated by hedging volume for three years forward during 2015 when prices were at historic low; gas volumes for 2018/19 were hedged at 67% limiting impact of further market price increases.

28. There is currently an agreed cost for the future delivery of electricity volume. For October 2017/18, this is at 75%; 49% for 2018/19; and 20% for 2019-20.
92% of the gas volume has had the cost agreed for future delivery for 2017/18, following consultation with stakeholders. The remaining small volume allows ESPO to 'balance' daily the actual demand required to be met.

29. The Modern Slavery Statement has been signed off as part of the Annual Governance Statement.

Resources Implications

30. None arising directly from this report.

Recommendation

31. Members are asked:

    a) To approve the lease renewal of the Wales depot;
    b) To note and support the contents of this report.

Officer to Contact

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Appendices

Appendix 1: Balanced Scorecard
Appendix 2: Corporate Risk Register (excerpt)