



MANAGEMENT COMMITTEE – 29 NOVEMBER 2017

PROGRESS UPDATE

REPORT OF THE ACTING DIRECTOR

Purpose of Briefing Note

- The purpose of this update is to inform Members of the actions and progress made since the last Management Committee meeting held on 20 September 2017.

Overall Financial Performance

- Overall financial performance to October 2017 year to date is outlined below:

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	26,993.8		27,317.6		27,269.7	
DIRECT	10,703.4		11,954.7		11,376.2	
CATALOGUE ADVERTISING	804.8		854.4		798.5	
REBATE INCOME	3,276.7		2,671.4		2,671.6	
MISCELLANEOUS INCOME	64.7		128.5		30.5	
TOTAL SALES	41,843.4		42,926.6		42,146.5	

- Total 'controllable' sales are 2.5% down on budget and 0.7% down on prior year. The primary driver for being down versus budget is direct sales.
- Rebate income is £3.3m which is £0.6m up on prior year
- Total gross margin is £13.2m, which is up on budget by £0.3m and up on prior year by £0.7m helped by rebate income being ahead of budget & prior year

- Total expenditure is £10.5m compared to a budget of £10.8m, a saving of £0.3m. This is primarily down to carrying vacancies in Operations and Commercial structures, further compounded by recruitment challenges in Procurement.
- Consequently, surplus is £2.7m compared to a budget of £2.1m, a positive variance of £0.6m.

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

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
GAS	6,068.4		7,114.1		7,043.6	
Margin on Gas.	206.1	3.5%	210.0	3.0%	111.2	1.6%

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 September 2016: 268,074,296 kWh invoiced;
- April 2017 to September 2017: 230,520,305 kWh invoiced (-14%)

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

ESPO Operational Progress

5. From April to the end of September 2017, ESPO processed £24.52m of customer orders making 101,632 deliveries. Warehouse picking was performed at a rate of 37 lines per hour, improving on the target of 28 lines per hour. The average order value of £166.04 is £11.86 higher than last year. Operational costs were £4.261m against a budget of £4.461m, a reduction of £200k on budget and a reduction of £161k on last year.
6. ESPO successfully delivered the September back-to-school peak maintaining on-time delivery throughout the period.
7. Year to date, Customer Services has handled 54,076 telephone calls with an abandonment rate of 4% against a target of 3%. Lines keyed to date is 1.250m. On-line orders accounted 23% of all orders processed.
8. The stock optimisation team maintained product availability of 98.8% and stock value was £5.660m with a stock-turn of 7.34.

9. Having been approved by Management Committee on 20 September 2017, the lease on the Welsh depot is being renewed.

Staffing

10. ESPO's Director has been part of the People Strategy Board which has recently approved a new People Strategy for Leicestershire County Council. ESPO's Leadership Team has reviewed this document and over the forthcoming months will engage with its workforce and embed accordingly. Year One of the People Strategy will focus on strengthening our skills and competencies and build on and improving the fundamentals: compliance, consistency, capability and confidence. This will be under the following four key themes:
 - Leadership
 - Skilled, Resilient and Flexible Workforce
 - Performance Management
 - Enablers

11. ESPO is adopting a new Managing Attendance Policy and Procedure (sponsored by Leicestershire County Council) to assist employees to improve, achieve and maintain the standard of attendance expected and ensure managers are applying the policy in a fair, consistent and sympathetic manner. ESPO has implemented this HR policy with immediate effect. The key changes to the policy are:
 - The procedure now consists of three stages rather than four;
 - Stress-related absence has been removed from the 'trigger' list, however managers are still required to offer support as early as possible;
 - The requirement for employees to report in on days 1, 4 and 8 has been removed; the frequency of contact should now be agreed by the manager on the first day of absence;
 - Employees should be given five working days' notice of meetings at Stages 1 and 2; however ten working days' notice is still required for the hearing at Stage 3;
 - The majority of phased returns should last between one and four weeks; however this can be extended up to six weeks (and beyond in certain circumstances) if necessary;
 - Support plans are still a requirement under the policy unless it can be justified that the use of a plan will have no benefit in supporting the employee to improve their attendance or return to work;
 - The hearing panel will now consist of one manager and an HR representative.

12. On 1st April 2017, ESPO changed its sickness absence reporting system from using Business Objects (BO) to Business Intelligence (BI) to align with Leicestershire County Council. As such, ESPO's sickness absence increased from 9.75 days lost per FTE as at 31st March 2017 (using BO) to 11.47 days lost per FTE as at 30th April 2017 (using BI).

13. Due to the variation from month to month, the Director of ESPO requested that an investigation should be carried out to determine the differences between both calculations and to ensure that the new reporting system was correct.
14. A joint investigation was undertaken by ESPO's Finance Team, LCC's Finance Team and ESPO's HR Business Partner and the detailed analysis was shared with ESPO's Leadership Team in September 2017.
15. The key differences between the two calculation methodologies which impacted on additional average days lost per FTE are as follows:
 - The BO calculation does not take into account working pattern and made assumptions about working hours. Whereas the BI calculation takes into account the working pattern and exact hours lost.
 - The BO calculation uses the FTE figure on the last day of the reporting figure; whereas the BI calculation averages the FTE figure over the 12 month rolling period.
 - Due to the BI reports being run retrospectively, this picked up additional sickness absences due to late submission of absence returns. These sickness absences would not have been included within the BO reports
16. The investigation has determined that as technology has been enhanced to take into account working patterns, both methods of calculating sickness absence were fit for purpose and correct at that point in time.
17. Due to the exact precision of the new BI calculation along with capturing sickness absence data that was input after a reporting period has resulted in ESPO's new sickness absence being greater than initially thought. However the sickness absence trend line is continuing to decrease.
18. The next steps are for the HR Business Partner to work with ESPO to ensure that all sickness absence returns are captured on time and to refine processes if required.

ESPO Risk and Governance Update

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

19. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) on 26 September 2017.
20. Following an audit by Leicestershire County Council's Internal Audit, ESPO has streamlined its reporting documentation, allowing a more detailed overview of its risk profile. There are five high risks which are reviewed monthly and these are attached in the new format at Appendix 2.

21. A new risk will be added to reflect the potential impact and mitigation in place regarding the establishment of ESPO Trading Ltd. This is related to the credit risk exposure that comes with these new customers.
22. As the Government's position is now more certain and includes transitioning arrangements, the risk identified within MRR63: Exit from the European Union is now within accepted tolerance. This had previously been reported as a high risk.
23. In October, the annual disaster recovery exercise took place at Daisy in Nottingham with procedures updated accordingly. All servers are backed up with tapes stored at Iron Mountain and when loaded at Daisy, the systems can be configured to successfully communicate with each other on the new network; recovery took 16 hours. Daisy has provided the disaster recovery service to ESPO for a number of years and is familiar with ESPO's recovery processes.
24. Next year, the exercise will be extended to two weeks to test the upgrade of the iSeries operating system to v7.3 before implementing this on the live system. Staff from all areas of the business will perform extensive testing to ensure that systems are still working as expected after this upgrade.
25. IBM undertook an audit of licences at ESPO (as part of their worldwide audit of licences) and now has all the proof of entitlement certificates it requires. ESPO has sufficient licences for all its users. There are however issues raised by IBM pertaining to ESPO's legal structure, headcount and ownership. This is being handled by Leicestershire County Council's legal team. The maximum risk to ESPO is a penalty equal to two years licence fees, approximately £40k.
26. In November, Hall Fire Protection is replacing the sprinkler-heads in the bulk store area of the Leicester warehouse with heavy duty units. This was recommended by ESPO's insurers. They will be invited to update their report on completion. New internal fire doors have been installed to the staff entrance foyer and ground floor kitchen.
27. A representative from the LCC property department and Focus Consultants conducted a review of the safety properties of the external cladding on the ESPO building on 9th October 2017. A report has been submitted and the conclusions and recommendations are that the building was constructed in accordance with the relevant legislative requirements in place at the time, and continues to meet these. In addition, the existence of active fire safety installations (sprinkler systems) within the premises are seen as a major benefit to life safety. There is a "built up" area of cladding, accounting of less than 1% of the surface area that is filled with fiberglass insulation and, if replaced with mineral wool, would offer greater fire resistance but this would not achieve any significant improvement in terms of life safety.
28. To enhance security of the building, a new security door system has been installed at the south entrance stairwell from the warehouse. The CCTV has also now been upgraded so that all cameras are converted to digital.

29. In the second quarter, the reported incidents and accidents included two cuts, one bruise, and three near misses. All injuries were minor.
30. An incident occurred on 16 October 2017 when a driver of an LGV momentarily lost control of his vehicle and the vehicle was brought to a safe stop by his co-driver. The driver is under medical suspension until his condition is reviewed by the occupational health team on 1 November 2017. As a result of the incident, four recommendations have been made which have either been implemented or are currently under consideration. These are:
 - A. Drug and alcohol testing: ESPO is consulting Leicestershire County Council's Health & Safety Manager and Corporate HR about its progress on a policy for this.
 - B. Annual Medical Screening for Class C & C1 drivers: This has been agreed and ESPO is drafting an implementation plan.
 - C. Driver fit to drive declaration: This declaration has been added to the daily vehicle checklist and is in use. Routine communication to drivers will reinforce this message.
 - D. Escalation channels: This has been discussed at the Warehouse Management Team operations meeting and is being documented by ESPO's Operation Manager.

Resources Implications

31. None arising directly from this report.

Recommendation

32. Members are asked:
 - a) To note and support the contents of this report.

Officer to Contact

Kristian Smith, Acting Director
K.Smith@espo.org
0116 265 7887

Appendices

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