

### MANAGEMENT COMMITTEE – 27 FEBRUARY 2019

#### PROGRESS UPDATE

#### REPORT OF THE DIRECTOR

#### Purpose of the Briefing Note

- The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 26 November 2018.

#### Overall Financial Performance

- Overall financial performance to December 2018 to date is outlined below:

#### Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
<b>SALES</b>						
STORES	34,211.4		32,999.6		32,286.0	
DIRECT	14,404.3		13,929.3		13,110.4	
GAS	9,933.3		10,781.3		8,281.1	
CATALOGUE ADVERTISING	664.9		852.5		806.0	
REBATE INCOME	4,957.3		4,144.0		4,019.3	
MISCELLANEOUS INCOME	87.1		146.4		47.2	
<b>TOTAL SALES</b>	<b>64,258.2</b>		<b>62,853.1</b>		<b>58,550.0</b>	
<b>TOTAL MARGIN</b>	<b>17,509.5</b>		<b>16,646.8</b>		<b>15,751.1</b>	
<b>TOTAL EXPENDITURE</b>	<b>14,137.9</b>	22.0%	<b>13,685.1</b>	21.8%	<b>13,009.5</b>	22.2%
As % of Total Sales Excluding Gas		26.0%		26.3%		25.9%
<b>TRADING SURPLUS</b>	<b>3,371.6</b>	5.2%	<b>2,961.7</b>	4.7%	<b>2,741.6</b>	4.7%

- Overall trading surplus YTD is £410k ahead of budget and £630k ahead of last year.
- Total sales at £64.3m are ahead of budget by £1.4m.
- Store sales £1,212k ahead of budget and £1,925k favourable to last year. The key area of improvement has been in our sales of exercise books and white paper.
- Direct sales are £475k ahead of budget principally down to higher MOD sales.
- Rebates are £813k ahead of budget. The growth is also enabled by better collection enforcement and the benefits of our new framework CRM system that was developed in-house are being felt.

The balanced scorecard is attached at Appendix 1.

### **ESPO Operational Progress**

3. In December ESPO processed £1.703m of customer orders making 12,597 deliveries. Warehouse picking was performed at a rate of 35 lines per hour, an improvement on the target of 32 lines per hour. The YTD average order value for stock orders was £161.75 which is £8.30 higher than this time last year. Operational and supply chain costs YTD are £7.831m against a budget of £7.460m, an increase on budget of £371k (5%). This is principally due to higher transport and distribution costs which includes YTD £86.2k overspend against budget on repair and maintenance to maintain the fleet of older vehicles. These are due to be replaced in Quarter 1 2019/20.
4. Fuel costs are up £22.3k on budget due to higher pump prices which have risen 8.2% in the last 12 months. Courier delivery costs have increased by £255k YTD over budget partly attributable to increased sales, particularly to 'out of area' locations. YTD courier deliveries are up 6,423 (8.2%) over last year and weight delivered up 336,000 kg (19.4%). Additional deliveries were made on couriers to expedite exercise books which came back into stock in October and through increased delivery frequency to certain regions. There was an accrual of £22k for electricity costs and a capital cost of £7.5k which will reverse in the forthcoming months.
5. In Customer Services there was a further improvement in the abandon call rate to an average of 3.8%. Across Customer Services, Directs and the Catalogue Admin the teams handled 5,897 telephone calls. Benchmarking visits have been made to Leicestershire County Council's call centre to look at performance indicators and the deployment of CRM and telephony systems. Following a review into ESPO's customer service teams a new structure management model is being planned for 2019, starting with the recruitment of a Customer Experience Manager to lead the ESPO call intake teams. This action plan will look to merge four customer facing teams into one with a view to improving the customer journey, to anticipate their needs and initiate process improvements across the organisation that delivers

enhanced customer satisfaction.

6. Order lines processed in October by Data Entry was 90,395. Online and electronic converted orders in December were at 53.3%. The online participation has risen 4.5% since April. Customer Service staff have been trained to handle calls from Eduzone customers and a member of staff who transferred from Eduzone has been appointed to a position in customer Services. We are looking at the feasibility of converting the large annual intake of school holiday orders to an electronic format in 2019.
7. The stock optimisation team improved product availability to 99.43% with 56 lines out of 9,871 temporarily unavailable; stock value is at £5.939m with a stock turn of 7.31. Preparations are under way to accommodate new lines and dispose of obsolete stock. A range of products from TTS have been withdrawn by the supplier (RM Group) and these will be returned to the supplier in April. Most of these products have been resourced from alternative suppliers by Product Managers.
8. Facilities management in December comprised of initiating annual service agreements for maintenance of plant and equipment. We completed the installation of new LED lights in the picking area underneath the mezzanine. Trials were carried out on new radio data terminal (RDT) and mobile printers from our warehouse management system provider Indigo. These offer a hands-free option through a ring scanner device which could lead to improvements in the physical picking process.
9. There were two accidents in December. The first involved a delivery driver who sustained a lower back strain in the course using a pump truck to move a pallet at a delivery point. The driver has been assessed for safe manual handling. We are considering different types of mobile lifting equipment which may help to reduce this type of incident. The second was a lower back strain sustained by a warehouse sorter whilst lifting a pack of duvets. This has become a RIDDOR as it incurred over seven days lost time. An investigation was conducted which identified poor manual handling technique, despite the member of staff having received a refresher training course in manual handling techniques two days prior to the incident.
10. Further training is planned for all staff involved in manual handling and 'train the trainer' courses to enable supervisors to train and mentor warehouse staff. We have refreshed the health and safety strategy which is underpinned with a service level agreement with Leicestershire County Council. This comprises of four pillars: safe systems of work, staff training, document control and reporting structures. This model helps to align the health and safety work activity. Through a detailed project plan, health and safety compliance is reviewed weekly by the Leadership Team, and a minuted monthly meeting.
11. The catalogue management group now oversee the production of the catalogue portfolio. For 2019/20 this comprises the main catalogue with a primary and secondary school wrapper; an Early Years, Eduzone catalogue and a Corporate catalogue. The warehouse range now includes tea, coffee

and ancillary drinks products which customers can have delivered with their normal ESPO order. The Early Years catalogue content has been merged with the Eduzone range and additional lines have been added in the office, janitorial and craft sectors. The pagination of the main catalogue has been reduced to 1,608 pages by transferring products to the Early Years and Corporate catalogue range. Through these actions and by matching the catalogue to customer segments the team have been able to reduce overall print and distribution costs by £58k.

12. ESPO has been considering its warehouse storage requirements ahead of the 2019 peak trading and being mindful of potential supply disruption caused through Brexit. For a period leading into, during and shortly after the call on ESPO's warehouse space is at its greatest as we seek to ensure maximum product availability for customers and to create a safe working environment in the warehouse. We have been exploring options for temporarily storing pallets externally for this period and are considering options at ports, via excess capacity at Kent County Supplies. This is for circa 3,000 pallets at circa £50k cost and in line with current budgets.

### **Staffing**

13. A HR dashboard provides the Leadership Team of a 'health check' on its people analytics and the amount of work that is being progressed and is being incorporated into ESPO's balanced scorecard.
14. Sickness absence continues to be well managed, despite the small seasonal increase that can be seen in December's figures. These statistics remain encouraging and HR are still working with managers to implement appropriate support plans to help individuals return to work in a timely manner. This includes a small number of employees who have recently been diagnosed with potentially serious health issues that may not be easily or quickly resolved, but we will continue to work closely with.
15. Recent recruitment activities have also been extremely successful. A large number of quality applications were received for the Non-Executive Director post which will join the Board of ESPO Trading Limited and we are also witnessing a lot of interest for our nationally hard to recruit positions within Procurement. This interest has followed a number of promotion activities on the LinkedIn website and also the creation of links with local universities which focusses on recruiting to our graduate and trainee posts. This promotion of ESPO as an employer of choice is now resulting in an increase to the number and quality of job applications being received and we aim for this to continue and be built upon over the forthcoming year.

## **ESPO Risk and Governance Update**

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

16. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) and the top risks are attached at Appendix 2.
17. The one outstanding audit recommendation relating to MSTAR2 was discussed at the Finance and Audit subcommittee with the recommendation to Management Committee that the action now be closed.

### **Resources Implications**

None arising directly from this report.

### **Recommendation**

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: CRR extract

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