

MANAGEMENT COMMITTEE – 16 SEPTEMBER 2020

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Report

- The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 24 June 2020.

Overall Financial Performance

- Overall financial performance to July 2020 is outlined below:

Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	15,453.9		18,800.0		17,735.3	
DIRECT	4,042.7		6,289.9		5,739.8	
GAS	3,922.0		3,628.9		4,758.6	
CATALOGUE ADVERTISING	643.1		616.9		650.7	
REBATE INCOME	2,966.5		2,507.8		1,993.8	
MISCELLANEOUS INCOME	2.8		51.3		94.2	
TOTAL SALES	27,031.0		31,894.9		30,972.5	
TOTAL MARGIN	9,026.9		9,780.6		8,799.2	
TOTAL EXPENDITURE	6,477.9	24.0%	7,004.7	22.0%	6,539.7	21.1%
As % of Total Sales Excluding Gas		28.0%		24.8%		24.9%
TRADING SURPLUS	2,549.0	9.4%	2,775.8	8.7%	2,259.6	7.3%

3. Catalogue sales YTD July were £19.5m which was 22% below budget and 17% below last year. The shortfall to budget was more pronounced on direct sales (-36%) than on stores sales (-18%). Direct-sales products are larger items (e.g. furniture etc) and with schools and business being closed they have held-off purchasing these “bigger-ticket” items.
4. At the start of the Covid-19 outbreak sales were devastated, with catalogue sales in April being 70% below budget. Since then sales have started to recover somewhat with catalogue sales in July being -5% below budget and down -22% July YTD.
5. Rebate income July YTD has been strong at just under £3m. This is 18% ahead of budget and 49% ahead of this time last year. The full year outlook for rebate income remains in-line with budget, so the increased rebate income in July YTD is effectively the result of timing differences and is expected to reverse in later periods.
6. The gross margin % in catalogue sales has been slightly ahead of budget and last year but, despite this, the shortfall in overall catalogue sales has resulted in a £1.2m shortfall in catalogue gross margin compared to budget. This has been tempered somewhat by the approx. £450k extra rebate margin versus budget.
7. Opex costs July YTD at £6.5m were £0.5m below budget. This was due to tight cost control, lower sales activity than budgeted and furloughed staff (July YTD furlough payments credited to the P&L was £0.2m). All staff should be back from furlough by 1 September 2020.
8. The effect of all of the above is that the trading surplus for July YTD was £2.5m, this was below budget of £2.8m but ahead of last year’s figure of £2.3m.
9. The full-year re-forecast of ESPOs P&L presented at the June Management Committee for 2020/21 indicated a full year surplus in the range of £3.5 to £4.0m. One underlying assumption behind this forecast was that sales would recover to around budgeted levels from July onwards. Catalogue sales in the month of July were -5% below budget. The upcoming few months traditionally have seasonally higher sales and the outcome of this will have a large effect on the full-year outturn. Consequently, given the continued risks and uncertainties, we feel it is imprudent to speculate on the likely full-year outturn. We plan to give further guidance towards the end of the year.
10. Looking to the future, beyond Covid-19, we have developed a Long-Term Financial Strategy (LTFS) to cover the next ten years which contains details of planned capital investment and a longer-term view to enable continued growth at ESPO. This LTFS is also the basis upon which a proposal to invest £6m in additional warehouse space has been made.
11. The balanced scorecard is attached at Appendix A.

ESPO Operational Progress

12. In July ESPO continued to operate against the backdrop of Covid-19. The majority of office-based staff continued to work from home with some being furloughed. This enabled ESPO's offices to be adapted to allow customer service staff to occupy the offices in compliance with the two-metre distancing protocol. Stores activity continued to increase in July in line with the traditional seasonal peak in the education sector with most primary schools in England being opened. Orders from other public sector customers such as the emergency services and local government were similarly buoyant in particular for cleaning equipment and PPE.
13. ESPO's distribution centre is operating under a revised safe system of work regime which requires social distancing from staff. The warehouse introduced zonal picking to keep picking staff in specific areas and away from each other. The transport operational protocol has been adapted to meet the new safe systems of work which, for example, meant that customers were not required to sign the delivery note. Covid-19 signage has been installed throughout the facility. A revised one-way system was introduced and a challenge log created to remind staff to remain two metres apart. A site inspection was conducted by Leicestershire County Council Health & Safety Officers and was formally signed off as 'Covid-19 Secure'. All relevant risk assessments, signage and safe systems of work have been shared with our Welsh depot and visited by ESPO's health and safety manager to ensure compliance.
14. As part of a national initiative to assist in the Shielding of Vulnerable People, on 3 April ESPO were nominated as the Food Hub for Leicestershire & Rutland. Working in conjunction with the corporate Resilience Planning Group ESPO continues to act as the distribution hub for food parcels. As part of a further national initiative which is being coordinated by HM military planners in conjunction with the LRP, ESPO is holding government emergency PPE for onward distribution to various settings including care homes and residential schools, these items are being processed on a free issue basis for collection or delivery on a daily basis to those in need. Donations are also being managed to help with a county initiative to increase the availability of PPE.
15. July is an important trading period for the stores business as schools prepare for the summer break. The distribution centre processed £6.752m of customer orders and the transport fleet with couriers made 21,122 customer deliveries. Warehouse picking was performed at a rate of 34 lines per hour, which is an improvement on the previous month as staff have adapted to social distancing. The error rate detected by QA was 4% which is above the target of 3% due to higher use of agency staff. The average order value for stock orders in July was £274.74 which is £18.01 higher than this time last year. Operational and supply chain YTD costs were £3.528m against a budget of £3.968m, which is £440k below budget reflecting decreased volume and tight cost control. Stores margin was 30.32% which is 0.32pp above budget.
16. The Customer Services Team processed 35,815 customer orders valued at £9.253m. This included a large number of school holiday offer (SHO) orders for delivery in August. Direct orders currently valued at £1.662m are being managed from suppliers to customers, a total of £672k are overdue and the suppliers are being

expedited by the customer services team. Across customer services, directs and catalogue admin the teams handled 9,178 telephone calls with an average waiting time of 38 seconds against a target of 30 seconds and a 7.2% abandon rate. ESPO's FEEFO customer service rating was 92% which indicates customer approval under the difficult environmental circumstances.

17. Following a business case and tender exercise the Customer Services Team has been working on a rebrand of ESPO's telephony voice messaging system with a service provider. This will give us the ability to be more dynamic in terms of messaging with fresher branding and an improved customer experience at the front end and have mirrored messaging across the new website. We expect the new voice protocols to help with the historic abandonment rate with clear pathways and simple wording. The messages will encourage customers to visit the ESPO web site where there will find further help and support with common queries. We are also looking into a "call you back" option to further improve the customer experience.
18. The stock optimisation team-maintained product availability at 94.55% with 543 lines out of 9,871 temporarily unavailable; stock value was £9.3m with a stock turn of 4.4. Product availability has deteriorated in some categories as a result of suppliers either temporarily closing or of delays in the international supply chain. This coincided with unprecedented demand for PPE and cleaning materials. Stock values increased as anticipated product sales in April and May fell away due to Covid-19. Investment in stock was planned as part of the peak trading plan, and subsequently by a decision to increase stocks of cleaning materials and PPE in anticipation of extra demand from schools and wider public sector. Alternative products have been sourced when existing suppliers were unable to fulfil back orders. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at KCS in Maidstone, at the port of Felixstowe and by its printer in Poland.
19. Facilities management in July was limited to essential activities mainly around Covid-19 signage improvements throughout the site. Other projects included lighting repairs, servicing of the sites aircon equipment including that of the server room, repairs to the pallet weighing equipment, sprinkler pumps servicing, warehouse doors service, compactor and bailer repairs.
20. There were two reported accidents in July a building contractor sustained a puncture wound whilst carrying out door repairs and first aid was administered. The second involved an agency worker who caught their back on a picking trolley there were no visible marks but may have exacerbated an existing condition. The agency worker subsequently elected to go home to rest.
21. The accident figure comparison for last six months with the previous year is shown below:

January to June 2019

Accidents: 26
Days lost time: 14

January to June 2020

Accidents: 9
Days lost time: 3

22. A return to site induction video to help staff adapt to the new working environment at the ESPO building was created. A vulnerable person's risk assessment template developed that can be used for anyone who is potentially more vulnerable, including BAME where appropriate. The extensive health and safety actions around Covid-19 have been previously detailed.
23. All members of the catalogue management team are working from home and are helping to manage availability for all suppliers and at the same time collating information on new products for the forthcoming catalogue in 2021. The team are writing contract specifications and updating information for the Agility/web upgrades. The team are helping with direct delivery suppliers and liaising with customer services as required to assist with the delivery. Those suppliers that were closed during lockdown are now open but not all are working at full capacity. The CMG team has contacted suppliers in the PPE and cleaning categories to establish their supply position. They have also been looking for alternative products and suppliers. This has prompted us to consider the vulnerability and risk in the supply chain and to look at alternative sourcing strategies.

Staffing

24. Following the initial furloughing of 99 members of staff, individuals have been phasing back into work over the summer, with the final group returning to work by 1 September 2020. This move has ensured that all of our services will be fully operational for schools reopening in the new academic year. The furloughing of staff has protected jobs and our services have successfully continued to function despite both the national and locally extended lockdown.
25. Sickness absence has continued to be well managed over this period and our overall levels have decreased again. The reductions evidenced over the last 24 months are still being seen every month, and this provides great confidence that sickness absence is being well managed within ESPO. Managers remain fully embedded with our approach and they continue to work with HR to implement appropriate support plans to help individuals return to work in a timely manner.
26. The completion rates for our mandatory training courses have maintained their high levels, despite our current inability to deliver face to face training to staff. Online training for those staff who have IT access has helped to ensure that staff have the necessary skills and knowledge to undertake their roles successfully is key for our service delivery.
27. Regular interaction with managers has been maintained through manager forums, Heads of Service Meetings, Team Meetings and regular all staff briefings. These have all ensured that vital messages and updates are disseminated throughout the organisation and that staff are also fully supported in their role. Staff newsletters have also continued to be issued every week, with additional Health, Safety & Wellbeing bulletins also being issued when required.

ESPO Risk and Governance Update

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

28. 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 B.

Resources Implications

None arising directly from this report.

Recommendation

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

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Appendices

Appendix A: Balanced Scorecard

Appendix B: CRR extract