

MANAGEMENT COMMITTEE – 17 MARCH 2021

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 25 November 2020.

Overall Financial Performance

COMBINED PRELIMINARY RESULTS	YEAR TO DATE Jan-21			
	ACTUAL		BUDGET	
	£000	%	£000	%
SALES				
STORES	36,177.5		39,110.7	
DIRECT	12,650.3		16,113.4	
GAS	9,705.8		11,591.8	
CATALOGUE ADVERTISING	798.7		796.4	
REBATE INCOME	7,112.5		6,555.2	
MISCELLANEOUS INCOME	(3.1)		128.3	
TOTAL SALES	66,441.7		74,295.7	
Cost of Sales				
STORES	25,148.7		27,455.0	
DIRECT	10,913.7		13,851.9	
GAS	9,450.4		11,286.8	
TOTAL COST OF SALES	45,512.8		52,593.7	
Margin				
STORES	11,028.7	43.9%	11,655.7	42.5%
DIRECT	1,736.6	15.9%	2,261.4	16.3%
GAS	255.4	2.7%	305.0	2.7%
CATALOGUE ADVERTISING	798.7		796.4	
REBATE INCOME	7,112.5		6,555.2	
MISCELLANEOUS INCOME	(3.1)		128.3	
TOTAL MARGIN	20,928.9		21,702.0	
TOTAL EXPENDITURE	16,722.8	25.2%	16,964.9	22.8%
As % of Total Sales Excluding Gas		29.5%		27.1%
TRADING SURPLUS	4,206.0	6.3%	4,737.1	6.4%

- For January 2021 YTD catalogue sales were £48.8m which was £6.4m or 11.6% below budget and 9.8% below last year. Within this, stores sales were 7.5% below budget and direct sales were down 21.5% versus budget.
- For the remainder of the financial year, it is anticipated that due to the Covid restrictions introduced in January 2021, that are due to end in regards to schools in March 2021, the sales revenue will continue to be lower than budget and combined with the level of fixed costs, this will mean that trading losses are forecasted to occur in February 2021 and March 2021.
- Rebate income January 2021 YTD is £7.1m, which was £0.56m (+8.5%) ahead of budget. The full year outlook for rebate income remains in-line with forecast at approx. £8.3m.
- The Miscellaneous Income is virtually nil due to the level of interest paid by Federated Bank (currently 0.01% versus 0.75% pre-pandemic). Also, LCC took the decision to divest from money market funds between 18th March 2020 and 12th June 2020 until there was more clarity in the markets. After 12th June 2020 the funds were then re-invested in stages; the funds were fully invested by mid-July 2020.
- The forecast for the year end has been reduced to £50k based on the above.
- The gross margin % in catalogue sales has been ahead of budget, but despite this, the shortfall in overall catalogue sales has resulted in a £1.2m shortfall in catalogue gross margin compared to budget.
- Opex costs January 2021 YTD at £16.7m were £0.2m below budget.
- The effect of all of the above is that the trading surplus for January 2021 YTD was £4.2m versus a budget of £4.7m.
- The full-year re-forecast of ESPO's 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. Given the continuing risks around Covid, it is anticipated that the full year surplus will be at the lower end of the range.
- The balanced scorecard is attached at Appendix 1.

ESPO Operational Progress

2. Against the backdrop of the third national lockdown ESPO's distribution centre in January processed 89,000 order lines, down 50% on January 2020, valued at £2.456m. The transport fleet made 12,936 deliveries with fewer deliveries being made on external couriers to help manage school closure issues. Warehouse picking was performed at a rate of 31 lines per hour.

Covid-19 related social distancing measures, reduced shift lengths have continued to impact on productivity throughout the period. The error rate detected by QA was 2% against the target of 3%. The average order value for stock orders in January was £133.72 which is £9.70 higher than this time last year, reflecting fewer but larger orders. Operational and supply chain YTD costs were £8.163m against a budget of £8.379m, which is £217k below budget. Stores margin was 30.50% which is 0.7pp above budget reflecting a beneficial change in the mix of products sold. We took the opportunity to furlough staff in operations and customer services to help mitigate costs during the lock-down.

3. The customer services team processed 16,446 customer orders, down 49% on January 2020, valued at £2.220m. Online and electronic converted orders in January were at 57.9%. Direct orders currently valued at £806k are being managed from suppliers to customers, a total of £224k are overdue and the late suppliers are being expedited by the customer services team. The team handled 5,175 telephone calls, with an average waiting time of 7 seconds against a target of 30 seconds and an 5.9% abandon rate. The Directs team received significant contacts with customers chasing orders as a result of supply chain delays. Lockdown three and the closure of schools saw a reduction in demand across all customer channels.
4. We received 43 service ratings on FEEFO, averaging 4.9/5 providing a 98% satisfaction rating. Most positive ratings relate to service and delivery. In conjunction with ESPO's IT team CS are introducing a cloud-based VOIP telephony solution to replace the current infrastructure. This will enable calls to be diverted and handled by all ESPO staff working remotely through a variety of devices such as lap-tops, tablets, desk tops and smart phones. The solution provides improved resiliency for ESPO as well as improved management and performance information. The use of call recording in the contact centre will enable service improvements through root cause analysis and staff training.
5. The stock optimisation team improved product availability to 98.3% with 173 lines out of 9,871 temporarily unavailable; stock value was £7.371m with a stock turn of 5.74. Stock values increased when product sales in January fell way due to the lockdown and school closure programme. The ordering patterns have been adapted to the new demand profile. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at KCS in Maidstone and by its printer in Poland.
6. Facilities management in January included annual approved contractor checks on the warehouse sprinkler system, powered pallet trucks, the warehouse pallet racking and pallet weighing calibration. Appropriate remedial actions were then taken on a small number of recommendations. As part of the site legionella control system the cold-water system was cleaned and chlorinated.
7. In terms of health and safety there was one minor accident where a member of the warehouse team sustained a small cut to the ankle whilst unloading a

pallet. No further action was required. Following the national lockdown, it was decided to take further safety measures to protect staff at Grove Park. Face coverings were made mandatory when entering and exiting the site. This helps to manage the risk of transmission at the start and finish of shifts when there is the most staff congestion.

8. ESPO's building remains Covid-19 secure and monthly Covid-19 self-assessments are returned to the LCC recovery group. There is continued monitoring and increased cleaning schedules by in-house staff and external cleaning contractors. The Health & Safety team are managing the access to site for any staff who need to visit the site for any reason. A joint consultative committee meeting was held with unions with no significant issues raised. A Covid-19 lessons learnt log was completed and shared with the Silver Team for business continuity planning.
9. The IT helpdesk handled 157 enquiries ranging from locked orders to proxy settings in Outlook. The Helpdesk and infrastructure team have had training on Office 365 in January and will be providing further support to the business on how best to utilise the software. More web cams have been deployed following discussion by Silver Team to support the wellbeing of employees to have video interactions with their line managers. The annual pricing exercise was undertaken which comprises uploading the new buying price and selling prices onto System 21 in preparation for the new web site and catalogue launch on 1st April.
10. A system refresh is being prepared on the Infor ERP system in 2021 to ensure that the operating system and middleware are on the latest version and fully supported. A business case and project plan are being created.
11. We signalled in November 2020 to staff that we were looking at means to manage payroll costs in the light of the business downturn. An action plan was launched on 25th January that impacted staff within the IT function at ESPO. This created a new structure which reflects the roles and responsibilities required to meet the changed needs of the business. Sadly, this has resulted in three positions being deleted and unless alternative roles are found these roles will be made redundant.
12. ESPO have been tasked with the storage and distribution of emergency PPE to local authority and educational settings agreed by the LRF as part of a national initiative through the Department of Health. ESPO are facilitating the distribution of PPE to district and city councils for onward processing.

Staffing

13. Sickness absence still continues to be well managed over this period, despite some small increases in our overall levels being seen recently due to the impact of the covid-19 pandemic. Over the month of January 2021, ESPO's average 12-month rolling figure slightly grew to 6.60 days of sickness absence per person (from a record low of 6.35 days the previous month). However, due to our recent successful reductions in sickness absence, this

still remains below the target set by Leicestershire County Council of 7.50 days. 20.70% of all sickness absence in the last 12 months was due to coronavirus, with a total of 460.27 working days lost. This was the second highest contributor to the total sickness absence, with musculo-skeletal reasons being the highest at 23.10% of all absence (an annual total of 513.96 days lost).

14. Regular interaction with managers and staff has continued through manager forums, Heads of Service Meetings, Team Meetings and Director briefings. Regular discussions with our Trade Union meetings have also continued over this period, alongside our Employee Engagement Group. Weekly staff bulletins have also included a range of communications on issues such as wellbeing practices and assistance. All of these have all ensured that vital messages and updates are disseminated throughout the organisation and that staff are also fully supported in their role.
15. Around 80 individuals have been placed on furlough leave, under the government's Coronavirus Job Retention Scheme, following the start of the January lockdown. The majority of these staff are either operations staff and reflect the down turn in demand, or colleagues who are classed as being clinically extremely vulnerable, and undertake duties that are unable to be completed at home. This situation will continue to be reviewed in line with the planned reopening of schools on 8 March 2021, and the revised definition of being clinically extremely vulnerable, to ensure that staff are being supported in line with the national guidance.
16. A number of staff have also now received confirmation that they successfully completed qualifications via the national apprenticeship route. This includes ILM Level 3 qualifications for some of our Category Managers and Shift Managers, and CIPS qualifications for our Trainee Procurement Officers. New cohorts are currently in the process of being recruited which will ensure that staff have the necessary skills to succeed in their roles.

ESPO Risk and Governance Update

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

17. 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.

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 1: Balanced Scorecard
Appendix 2: CRR extract