

MANAGEMENT COMMITTEE – 15 SEPTEMBER 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 on 23 June 2021.

Overall Financial Performance

Financial Performance – 4 months to end of July 2021

Summary

Year to July 2021 – Period 4			
£m	Actual	B/(w) than Budget	B/(w) than LY
Stores Sales	19.0	1.0	3.5
Direct Sales	5.9	0.3	1.8
Rebate plus fee income	3.5	0.6	0.5
Total Sales (Exc Gas)	28.3	1.9	5.8
Stores Margin %	30.3%	(1.0%)	(0.0%)
Directs Margin %	15.6%	1.0%	0.8%
Total Gross Margin	10.8	0.8	1.8
Total Expenditure	7.4	(0.1)	(1.0)
Trading Surplus	3.4	0.7	0.8
Trading Surplus %	10.2%	1.8%	(1.2%)
Expenditure % of sales excl Gas	25.8%	1.3%	9.2%

Full Year Outturn - Estimate £m	Outturn	B/(w) than Budget	B/(w) than LY
ESPO	5.0	0.0	0.4
ETL/Eduzone	0.1	0.0	0.0
Full Year Surplus	5.1	0.0	0.4

- Up to the end of July 2021, 4 months into the year, **a surplus of £3.4m has been made which is £0.7m better than budget.** Trading has remained strong after schools reopened more fully in early March 2021 and we have once again seen strong demand through our peak summer trading period.

3. In our catalogue business, sales across virtually all categories have returned to more normal, pre-Covid levels. Across frameworks and rebates, the business continues to perform well and grow.
4. The surplus is £0.8m better than last year, as a result of the Covid pandemic and last year's national 'Stay at Home' order which saw most of our customer base close physical offices/schools to all except for key workers/children of key workers.
5. Costs continue to be tightly controlled with expenditure of £7.4m slightly higher than budget due to the cost of servicing higher sales volumes. Staff costs are in line with budget overall. (Costs are significantly higher than last year due to additional warehouse and distribution costs needed to service the significantly greater level of sales).
6. Trading through August has continued to be ok and mid-month is very slightly ahead of budget. However, we are mindful of the likely additional cost from the national pay award and also emerging risks to our margin from the threat of increases to product costs in some categories. Whilst optimistic, **our guidance for the full year remains in line with the original budget, i.e. a £5.1m surplus** for combined ESPO and ETL.

Sales and Margin

Sales and Margin						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Stores Sales	19.0		1.0		3.5	
Direct Sales	5.9		0.3		1.8	
Rebate income	3.5		0.6		0.5	
Total Sales	28.3		1.9		5.8	
Stores Margin	5.7	30.3%	0.1	(1.0%)	1.1	(0.0%)
Directs Margin	0.9	15.6%	0.1	1.0%	0.3	0.8%
Rebate income	3.5		0.6		0.5	
Gas Margin	0.1	2.4%	(0.0)	0.0%	(0.0)	(0.9%)
Catalogue Advertising	0.6		0.0		(0.0)	
Misc	(0.0)		(0.0)		(0.0)	
Total Gross Margin	10.8	32.6%	0.8	1.2%	1.8	(8.8%)

7. Total sales for the 4 months to July 2021 reached £28.3, which was £1.9m better than budget and £5.8m better than last year. Even though some government restrictions remained in place in the UK in spring/summer 2021, schools returning from 8th March 2021 resulted in trading returning to more normal levels.
8. Stores sales were £19.0m and £1.0m / +5% better than budget. Sales across virtually all product categories are higher compared to last year and returning to more normal levels. Sales of Cleaning Materials and Protective Equipment are behind last year (-30%), reflecting the huge peak experienced last year

from the customer response to the Covid pandemic. These categories are however 20% ahead of 19/20 pre-Covid levels and we expect this trend to continue at least for the duration of this year as customers continue to employ enhanced cleaning routines.

9. Our copier Paper category, with sales of £1,025k to date, sees sales being c14% lower than 2019/20 (a 'normal' year) and there remains a risk that this trend will continue through this year and beyond with the prevalence of remote working. We expect this risk to the sales budget (and MTFs) to be offset by growth in other categories.
10. Reported gross profit margin % for Stores at 30.3% is slightly behind budget due to accounting timing adjustments. Looking ahead, we see some possible risk to gross profit margin from global challenges affecting our supply chain such as the lack of availability of shipping containers in the Far East and the continued impact of Covid (which, for example, has resulted in manufacturers and ports overseas suffering full or partial closures – including China's Ningbo-Zhoushan Port, the third largest shipping port in the world suffering a partial closure in August 2021). We are starting to see some requests from suppliers for price rises and there is a risk that in some cases these could be in excess of the sales price rises we applied in April.
11. Global supply challenges also impacted stock availability, which averaged 91.4% in July and ESPO finished July with outstanding back orders with value £0.4m. We are working with both customers and suppliers to manage this and expect a significant amount of this to be cleared prior to schools returning in late August/early September.
12. These issues caused by global supply chain challenges affect the entire market, not just ESPO, and we have seen competitors affected in a similar way. We have been careful in keeping customers up to date and where necessary raising awareness of the issues in global supply.
13. Directs sales were £5.9m and £0.3m better than budget. Customer purchasing of the bigger ticket items which are supplied directly via suppliers has started to return to normal with some pent-up demand being realised through April and May. Products within our 'Sports and Leisure' and our 'Parks and Amenities' categories are performing particularly well linked to a government bodies encouraging the use of outdoor space and seeing greater usage. Furniture related sales remain slightly below pre-Covid levels (-11%) with some longer lead times currently seen – linked to the global supply chain challenges above. We don't envisage a risk to the overall 21/22 budget.
14. Reported gross profit margin % for Directs at 15.6% is largely in line with budget.
15. Rebate income of £3.5m is £0.6m better than budget and continuing to perform very well with a wide range of frameworks offered. The Strategic HR Services framework continues to see strong demand as employers looked to support their staff teams both during the pandemic and in preparation for returning to the workplace in some format. Our Salt framework continues to

benefit from the increased coverage of Highways England and a cold winter. Linked to Covid, our Total Cleaning Services Solution framework is also performing strongly.

16. Our other income, from managing gas contracts, selling advertising space in the catalogue and misc income like bank interest are all largely in line with budget.
17. Overall gross profit margin at £10.8m is £0.8m better than budget, with the increased sales from good trading flowing through into profit.

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	4.2	0.1	(0.4)
Agency/Contract	0.5	(0.1)	(0.1)
Total	4.7	(0.0)	(0.5)
Overhead Expenses			
Transport	0.9	(0.1)	(0.3)
Warehouse	0.6	(0.0)	(0.0)
Procurement	0.1	0.0	(0.0)
Sales & Marketing	0.5	(0.0)	(0.1)
	2.1	(0.1)	(0.4)
Finance	0.1	(0.0)	(0.0)
IT	0.4	(0.0)	(0.1)
Directorate	0.1	0.0	0.0
	0.6	(0.0)	(0.1)
Total Overhead Expenses	2.7	(0.1)	(0.5)
Total Expenditure	7.4	(0.1)	(1.0)
As % of Total Sales Excluding Gas	25.8%	1.3%	9.2%

18. Total expenditure of £7.4m was slightly greater than budget (+£0.1m) as a result of greater transport costs needed to service the greater sales volumes. We retain a continued focus on strong cost control across all areas. Costs are £1.0m higher than last year mainly from the cost of fulfilling the additional sales we have seen.
19. Expenditure as a % of sales is one KPI which allows us to measure cost control in relation to sales. At July, and after 2 months, this KPI was 25.8%. This is better than budget and at July is particularly low as a result of our peak trading period taking place in July. In the coming months we will see this %

move to the c29% targeted for the full year driven by the timing of sales (rather than issues with cost control).

ETL/Eduzone

ETL and Eduzone Combined (YTD to June 21)			
£000	Actual	B/(w) than Budget	B/(w) than LY
Total Sales	227.3	17.1	57.8
Trading Surplus	-1.8	16.9	18.2

20. ETL and Eduzone are ESPOs limited companies which service the private sector. They are benefiting from a similar trading experience to ESPO and have seen sales ahead of budget and last year.
21. Eduzone sales are benefitting from a significantly improved relationship with its main customer, where a greater proportion of their nurseries are now using us. This benefit is partly offset by lower overseas sales within ETL as a result of Covid.
22. Overall a breakeven position has been made to the end of June which is slightly ahead of budget.

Full Year Expectation

23. After 4 months ESPO is £0.7m ahead of budget. Trading through August has continued to be ok and mid-month sales are very slightly ahead of budget. However, looking ahead for the full year we are mindful of likely additional cost from:
 - a. The national pay award. The latest 'offer' is +1.75%, which would be retrospectively applied from April 2021 and would have unbudgeted cost of c£0.2m. (The budget followed the guidance in the Autumn Spending Review which suggested a public sector increase of £250 for staff members earning less than £24k).
 - b. product cost increases in some categories as a result of challenges in the supply chain and the additional shipping costs being seen globally.
24. Whilst optimistic, our guidance for the full year remains in line with the original budget, i.e. a £5.1m surplus for combined ESPO and ETL.

	Year to Date @ July 21					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	18,980		18,021		15,454	
Direct	5,852		5,596		4,043	
Rebate Income	3,457		2,810		2,967	
Gas	4,334		4,742		3,922	
Catalogue Advertising	620		603		643	
Other Income	(9)		12		3	
Total Sales	33,234		31,783		22,463	
Cost of Sales						
Stores	13,231		12,385		10,768	
Direct	4,941		4,780		3,446	
Gas	4,229		4,627		3,791	
Total Cost of Sales	22,401		21,792		14,214	
Margin						
Stores	5,749	30.3%	5,636	31.3%	4,686	30.3%
Direct	911	15.6%	816	14.6%	597	14.8%
Rebate Income	3,457		2,810		2,967	
Gas	105	2.4%	115	2.4%	131	3.4%
Catalogue Advertising	620		603		643	
Other Income	(9)		12		3	
Total Margin	10,833	32.6%	9,991	31.4%	9,027	40.2%
Expenditure						
Employee Costs						
Staff	4,192		4,265		3,810	
Agency/Contract	519		433		427	
Total	4,712		4,698		4,238	
Overhead Expenses						
Transport	916		862		609	
Warehouse	609		573		585	
Procurement	83		104		78	
Sales & Marketing	493		480		412	
	2,100		2,019		1,684	
Finance	122		107		91	
IT	378		356		321	
Directorate	134		138		144	
	634		600		556	
Total Overhead Expenses	2,734		2,619		2,240	
Total Expenditure	7,446	22.4%	7,317	23.0%	6,478	28.8%
As % of Total Sales excl Gas		25.8%		27.1%		34.9%
Trading Surplus	3,387	10.2%	2,674	8.4%	2,549	11.3%

ETL/Eduzone Combined P&L – June 2021

ETL & Eduzone Results	Year To Date					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Sales	227.3		210.2		169.6	
Total Sales	227.3		210.2		169.6	
Cost of Sales						
Cost of Sales	146.4		135.7		114.5	
Total Cost of Sales	146.4		135.7		114.5	
Margin						
Margin	80.9		74.5		55.1	
Total Margin	80.9	35.6%	74.5	35.4%	55.1	32.5%
Expenditure						
Employee Costs & Agency	13.5		12.6		10.3	
Commission	1.9		1.5		0.6	
Carrier	18.7		14.7		15.8	
Marketing Expenses	10.4		12.3		13.1	
Catalogue Print & Distribution	25.4		35.0		21.5	
Consultancy	0.6		0.6		1.9	
Support / Legal Prof	2.5		2.5		(3.3)	
Accountancy	2.7		3.0		3.0	
Insurance	3.4		3.4		5.0	
Audit	0.0		0.0		0.0	
Office Machine Maint / Software	1.0		0.9		0.9	
Merchant Services	0.4		2.4		2.3	
Depreciation	0.0		0.0		1.0	
Loan Interest	0.0		0.0		0.0	
Other Expenses	2.1		4.3		2.9	
Total Expenditure	82.7	36.4%	93.2	44.3%	75.1	44.3%
Trading Surplus /(Deficit)	(1.8)	-0.8%	(18.7)	-8.9%	(20.0)	-11.8%

ESPO Operational Progress

25. In July ESPO's distribution centre processed 209,000 order lines, valued at £5.787m and the transport fleet with couriers made 15,368 deliveries. The peak trading period of June and July was successfully managed, with all customer delivery promises met on time. Warehouse picking was performed at a rate of 31 lines per hour. This year it has been noticeable that there has been a marked deterioration in the quality of agency staff, evidenced by poor attendance and sub-standard productivity. This, in conjunction with national driver shortage, presages labour shortage problems in the post Brexit era. Mitigation of these risks is incorporated in ESPO's MTFs. The error rate detected by QA was 1% against the target of 3%. The average order value for stock orders in July was £293.28 in line with budget. Operational and IT costs year to July were £4.328m against a budget of £4.189m. Courier costs relating to 2020/21 that were taken in 2021/22 together with IT payroll costs and hardware purchases account for the majority of this overspend. Stores margin YTD is 30.3%.
26. Activity levels across all customer channels were buoyant in July. The Customer Services team handled 9,870 calls and the average speed of answer was 28 seconds against a target of 30 seconds. The team processed 27,185 customer orders valued at £6.821m. Online and electronic converted orders in July were at 52% of the total. A total of £3.5m of school holiday orders have been processed this summer which helps to deflect demand into the quieter August trading period. Direct orders currently valued at £3.4m are being managed from suppliers to customers. The value of direct orders in transit is higher than the past two years at this time reflecting perhaps reinvestment in the school's infrastructure. Late suppliers are being expedited by the customer services team.
27. We received 41 service ratings from customers on FEEFO providing a 92% satisfaction rating. Most positive ratings relate to service and delivery. Implementation of the 1st phase of ESPO's new telephony solution Voxivo is in progress, with users trialing and testing the system. Full roll out of the service areas is scheduled with the Contact Centre and warehouse to go live in August which will provide valuable insights into both the reason for the call and how it was handled.
28. Stock availability averaged 91.4% in July with an average of 891 lines temporarily unavailable (£0.4m sales value); stock value was £7.774m with a stock turn of 5.95. The industry-wide availability issues can be traced to an upsurge in market demand and a shortage of components affected by the international shipping constraints. Alternative suppliers and products are being considered where appropriate and customers are being kept up to date on the gradual improvement in availability. 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.
29. Facilities management in July was comprised of disposal of obsolete office equipment in preparation for the refurbishment programme. Drawings for the

new office layouts were agreed with LT. Repairs were made to the mechanised pallet wrapper and to the scissor lift. Various improvements were made to the warehouse lighting to upgrade the fittings.

30. A programme of works to adapt ESPO's offices at Grove Park to meet the needs of the organisation and staff to work flexibly is underway following discussion at Management Committee on 23rd June. The costs will be met from existing building reserves. A project team has been mobilised to deliver this on the ground with a phased return from October 2021 envisaged. This will ensure that ESPO's workplace will be set up to better support collaboration, productivity, wellbeing and customer service. A 'summer sort-out' has encouraged staff to clear out their desks enabling the team to prepare for the refurbishment. A desk booking system (Skedda) used by LCC has been adopted and the office wi-fi is being upgraded in preparation for the planned changes.
31. There were no Health and Safety accidents in July, which is to the credit of the H&S team. More first aiders are to be trained to provide additional cover as part of the office re-occupation. The JCC meeting with unions took place on 23rd July. The new Drug & Alcohol testing policy that is being introduced by LCC in September was discussed. This introduces randomized testing alongside 'with-cause' testing for staff in safety critical roles – such as LGV drivers and FLT operatives. Risk assessments for Covid were reviewed following the government easing of restrictions announced on 19th July. It was decided that with the exception of the 30-minute break between shifts, that the existing controls should stay in place. This break has been reduced to 15 minutes which still provides sufficient clearance between shifts. ESPO's building remains Covid-19 secure with monthly Covid-19 self-assessments being returned to the LCC recovery group.
32. The IT helpdesk handled 420 enquiries with a 100% satisfaction rating from internal customers. Security Incidents again took up a noticeable amount of IT time, with a number of incidents requiring attention, albeit nothing major. There has been a noticeable increase in the number of phishing attempts (including other email-based threats) over the last few months, to the stage where we are seeing security incidents that need to be specifically addressed on a weekly basis. An alert has been added to service desk tool so that the IT team are immediately notified and directed to review the ticket. The ongoing LCC CyberSecurity audit will provide further guidance on all aspects of cyber security strategy.
33. 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 project plan has been uploaded to ITSM and following user testing in August it is planned to deploy the system upgrade in October/November 2021. The team is supporting the office refurbishment by ensuring that the necessary technical infrastructure is in place including upgraded wi-fi.

Staffing

34. Sickness absence due to covid continues to be well managed despite the increase in infection rates that have occurred nationally over the last quarter. Since June 2021, five employees have tested positive for covid, and arrangements for self-isolation or working from home have successfully been put in place. In addition to these numbers, there is also one individual who is currently absent from work and is displaying the symptoms of 'long covid'. Support will continue to be offered to these individuals, with safe working arrangements remaining in place to ensure that the potential of any work-based outbreak is reduced as far as is practicable.
35. From 11 November 2021, anyone entering a care home will need to have received a double covid vaccination. As ESPO drivers may occasionally enter care homes as part of their role in delivering orders, discussions are underway to ensure that these goods can be delivered securely, without compromising the safety of care home employees and residents.
36. Leicestershire County Council have agreed to introduce random drug and alcohol testing for safety critical jobs, which includes delivery drivers and fork lift truck operators. This random testing will be in addition to ESPO's current 'with cause' approach where staff can be tested if they are displaying any symptoms of being under the influence. Random testing for these posts will commence in September 2021 and increased levels of support will be available for those that may need it.
37. Local Government pay negotiations are still continuing nationally, with the latest offer of 1.75% being made to the Trade Unions. Any increase will be backdated to 1 April 2021 and will be implemented as soon as agreement is reached.

ESPO Risk and Governance Update

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

38. 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.

Officer to Contact

Kristian Smith, Director
k.smith@espo.org
Tel: 0116 265 7887

Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract

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