ESPO

MANAGEMENT COMMITTEE – 16 MARCH 2021

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Report

1. 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 November 2021.

Overall Financial Performance

Summary

Year to January 2022 – Period 10					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	40.0	2.3	6.1%	3.8	10.6%
Direct Sales	16.3	1.0	6.3%	3.7	28.9%
Rebate plus fee income	7.9	1.3	20.5%	0.8	11.2%
Total Sales (Exc Gas)	**64.2**	**4.6**	7.7%	**8.3**	14.8%
Stores Margin %	31.0%	(0.2%)		0.6%	
Directs Margin %	14.1%	(0.5%)		0.4%	
Total Gross Margin	23.7	2.0	9.0%	2.7	13.1%
Total Expenditure	18.0	(0.5)	(2.9%)	(1.2)	(6.4%)
Trading Surplus	**5.7**	**1.4**		**1.5**	
Trading Surplus %	8.9%	1.7%		1.4%	

Full Year Outturn - Estimate £m	**Outturn**	**B/(w) than Budget**	**B/(w) than LY**
Full Year Surplus	5.4 - 5.8	0.3 - 0.7	0.7 - 1.1

2. Up to the end of January 2022, 10 months into the year, **a surplus of £5.7m has been made which is £1.4m better than budget**. Trading continues to remain strong following the upturn after schools reopened more fully in early March 2021, high demand through our peak summer trading period and the September return to school period. The impact of the Omicron Covid variant on trading appears to have been minimal and we continue to benefit from the large, one off order with the Department of Education for abacuses, to support their mathematics catch up project in schools.

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 £1.5m 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 £18.0m slightly higher than budget due to the cost of servicing higher sales volumes. (This includes staff costs which are £0.1m higher than budget). Costs are £1.2m higher than last year due to additional warehouse and distribution costs needed to service the significantly greater level of sales.

6. For the full year, the budget is a surplus of £5.1m. Whilst we expect trading to continue positively to the end of the March financial year, there are also specific unbudgeted costs which we expect to materialise in the final quarter of the year (such as the Local Government Pay Award for 21/22 which will be back dated to 1 April 2021). Considering all this, **our latest guidance for the full year is a trading surplus in the range of £5.4m - £5.8m.** Note – our detailed outturn is at the mid-point of the guidance at c£5.6m.

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	40.0		2.3	6.1%	3.8	10.6%
Direct Sales	16.3		1.0	6.3%	3.7	28.9%
Rebate income	7.9		1.3	20.5%	0.8	11.2%
Total Sales	**64.2**		**4.6**		**8.3**	
Stores Margin	12.4	31.0%	0.6	(0.2%)	1.4	0.6%
Directs Margin	2.3	14.1%	0.1	(0.5%)	0.6	0.4%
Rebate income	7.9		1.3	(0.5%)	0.8	0.4%
Gas Margin	0.2	2.4%	(0.0)	(0.0%)	(0.0)	(0.2%)
Catalogue Advertising	0.8		0.0		0.0	
Misc	(0.0)		(0.0)		(0.0)	
Total Gross Margin	**23.7**	**36.8%**	**2.0**	**0.4%**	**2.7**	**(1.0%)**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	9.8		(1.6)	(13.9%)	0.1	1.3%
Gas Margin	0.2	2.4%	(0.0)	(0.0%)	(0.0)	(0.2%)

7. Total sales for the 10 months to January 2022 reached £64.2m, which was £4.6m better than budget and £8.3m 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. Trading over the summer was also strong with ‘peak’ sales comparable to previous years, and we have seen no reduction in trading as a result of the winter 21/22 Omicron variant emerging.

8. **Stores sales were £40.0m and £2.3m / +6% better than budget**. Sales across virtually all product categories are higher compared to last year and returning to more normal levels.

9. Comparing to pre Covid levels (2019/20), at a product level:

a. Sales within our Cleaning and Catering section are +20% on pre-Covid levels, with enhanced hygiene procedures continuing in schools and driving greater sales of soaps and paper towels.

b. Curriculum sales are +19% with greater across most subjects, but in particular spend on Sport and Leisure with schools looking to do more outside.

c. Sales of copier paper are down 16%, likely to be a long-term shift away from printing following the impact of remote working during Covid.

10. Reported **gross profit margin % for Stores at 31.0% is slightly behind budget in line with budget** as a result of a limited amount of in-year cost price inflation. This has largely been managed for 2021/22 and is factored into our pricing strategy for 2022/23.

11. Global supply challenges continue to impact stock availability, at 96%, although we have been seeing gradual weekly improvements and we finished January with outstanding back orders of £0.1m. This continues to be closely monitored and managed to fulfil customer orders as promptly as possible. These issues 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.

12. **Directs sales were £16.3m and are £1.0m ahead of budget.** Sales started well in 2021/22 with a ‘bounce back’ in April and May caused by the gradual lifting of restrictions upon schools from March 2021. At the same time, global supply chain challenges have extended lead times across a number of lines but demand remains high from customers who are prepared to wait for goods, and recognise the issues affect the entire market. We have seen the benefit of this in sales in the third quarter as this demand has started to be fulfilled and outstanding orders reduce.

13. From a product perspective, 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, previously tracking behind pre-Covid levels due to the supply chain challenges, have caught up and continue to have a strong pipeline of orders which will benefit the final quarter of the year and early 2022/23.

14. Reported **gross profit margin % for Directs at 14.1% is 0.5% behind budget**, although this is being depressed by a major project on the Cambridgeshire County Council head office which is at a fixed administration fee, as is normal for this type of project. Underlying margin is in line with budget.

15. **Rebate income of £7.9m is £1.3m 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. Total Cleaning Services Solution framework is ahead of target linked to Covid. Our Specialist Vehicles framework is struggling this year as a result of the global shortage in micro-processors delaying customers receiving vehicles, although demand remains high and this remains an important framework for future growth.

16. **Income from our gas service is in line with budget**. This service relates to a customer bill validation service, and also acting as a procurement agent on behalf of customers where we buy their gas on their behalf. These attract a fixed charge and so ESPO's trading surplus isn't exposed to the price volatility seen in the gas market in Summer/Autumn 2021. The customer ultimately bears this risk, but, part of the service involves ESPO using our expertise and size to forward buying gas to manage this risk more effectively and in line with the agreed risk profile for the service.

17. Our other income from selling advertising space in the catalogue and misc income like bank interest are all largely in line with budget.

18. **Overall gross profit margin at £23.7m is £2.0m 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	10.3	0.4	(0.2)
Agency/Contract	1.6	(0.7)	(0.4)
Total	**11.8**	**(0.3)**	**(0.6)**
Overhead Expenses			
Transport	2.0	(0.1)	(0.4)
Warehouse	1.5	(0.1)	(0.1)
Procurement	0.2	0.1	0.0
Sales & Marketing	0.7	0.0	(0.1)
Finance	0.3	(0.0)	0.0
IT	0.9	(0.1)	(0.2)
Directorate	0.4	(0.0)	(0.0)
Total	**6.1**	**(0.3)**	**(0.6)**
Total Expenditure	**18.0**	**(0.5)**	**(1.2)**
As % of Total Sales Excluding Gas	**28.0%**	**1.3%**	**2.0%**

19. **Total expenditure of £18.0m was slightly greater than budget (+£0.5m)** as a result of greater costs needed to service the greater sales volumes – with the higher costs being seen within agency staff, warehouse and transport. We retain a continued focus on strong cost control across all areas. Costs are £1.2m higher than last year mainly from the cost of fulfilling the additional sales we have seen.

20. **Expenditure as a % of sales** is one KPI which allows us to measure cost control in relation to sales. This KPI was 28.0% and is 1.3% better than budget and 2.0% better than last year and shows costs are being controlled in relation to sales activity.

ETL/Eduzone

21. ETL and Eduzone are ESPOs limited companies which service the private sector.

ETL and Eduzone			
£k	**Actual**	**B/(w) than Budget**	**B/(w) than LY**
Eduzone Sales	680	102	175
ETL Sales	151	(67)	22
Total Sales	830	34	197
Eduzone Gross Margin	246	44	66
Eduzone Gross Margin %	36.2%	1.2%	0.5%
ETL Gross Margin	64	(34)	30
ETL Gross Margin %	42.5%	(2.5%)	16.1%
Total Gross Margin	310	10	96
Eduzone Expenditure	(186)	0	(36)
ETL Expenditure	(47)	13	(15)
Total Expenditure	(232)	14	(51)
Trading Surplus	78	23	45
Trading Surplus %	9.4%	2.5%	4.2%

22. Eduzone, our business focusing on early years in the UK, has performed well with sales ahead of budget by 18%. ETL, our international business, continues to struggle as a result of Covid restrictions affecting product sales.

23. Margin is largely in line with budget and costs are being controlled.

24. Overall a £78k surplus has been generated to the end of January which is slightly ahead of the budget target. For the full year, we expect to be in line with budget.

Full Year Expectation

25. After 10 months ESPO is £1.4m ahead of budget and looking to the full year we are mindful of several unbudgeted costs or timing issues which will impact the final quarter of the year:

    a. The local Government pay award. The last ‘offer’ was +1.75%, which would be retrospectively applied from April 2021 and would have unbudgeted cost of approximately £0.25m. This hasn’t been agreed by Trade Unions. It is possible that this won’t be agreed before the year end in which case we will make an estimate of the cost to include in 2021/22.

    b. Additional pay costs within operations. Driver pay has been a national issue and ESPO has agreed to pay a market premium to its drivers to remain competitive. We are also experiencing cost increases in agency driver and courier costs and in warehouse agency staff where we are seeing high market rates, low supply and lower productivity. This cost impact of this is expected to be c£0.2m.

    c. Some likely impact of timing in our rebates income, with c£0.2m - £0.4m of income previously expected for March 2022 now expected to fall into April 2022.

d. The additional costs of taking out a new cyber insurance and incident support policy, and commencing a review of our transport offer.

26. Considering all this, **our latest guidance for the full year is a surplus in the range of £5.4m - £5.8m. (**Note, our detailed outturn calculation suggests we will deliver at the mid-point of the guidance range = £5.6m.)

Audit

27. Grant Thornton are currently conducting the audit work for 2020/21 and we expect to present the financial statements for approval in the June 2022 Management Committee meeting.

28. As previously advised, for the 2021/22 external audit we have conducted a tender which follows our contract procurement rules. We are in the final stages of appointing a provider and the process was overseen via the Chief Officers Group, where a delegate from Norfolk County Council joined ESPO staff and a member of Leicestershire County Council staff to evaluate the bids. We anticipate the 21/22 audit work to take place over the summer and to be able to deliver the financial statements for approval in the September 2022 Management Committee meeting.

ESPO Operational Progress

29. In January ESPO's distribution centre picked and despatched 132,310 order lines, valued at £3.433m and the transport fleet with couriers made 21,670 deliveries. Warehouse picking was performed at a rate of 32 lines per hour against our target of 32. The error rate detected by QA was 1% against the budget of 3%. The average order value for stock orders in January was £132.63 Operational and IT costs year to January were £9.301m against a budget of £8.731m. Stores sales were 5% higher than budget and agency unit rates have increased particularly in the transport area which have contributed to higher than budgeted staff costs. Courier costs that were taken in 2021/22 together with external storage costs and IT hardware purchases account for the balance of the overspend. Stores margin YTD was 31.3% which is line with budget.

30. Contact volumes for customer services, returned to the expected level for this period. The Customer Services team handled 7,113 calls across the four customer service lines (customer services, directs, Eduzone and registrations) Call performance remains strong with the average speed of answer 26 seconds against a target of 30 seconds. The team processed 27,728 customer orders valued at £3.677m. Online and electronic converted orders in September were at 66.7% of the total reflecting an increasing trend towards digital ordering via 'punchout' or through the web. Direct orders currently valued at £2.857m 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 a reinvestment in the school's infrastructure. Late suppliers are being expedited by the customer services team.

31. The results of the annual Institute of Customer Service survey have been completed. ESPO's results have been benchmarked against the non-retail sector of the UKCSI survey results. ESPO scored 83.3, compared to 77.4 for the UKCSI overall and 81.2 for retail non- food. Our customers are most satisfied with competence and helpfulness of staff, billing and invoicing. Areas of least satisfaction is around complaint handling, including the speed to resolve and the outcome of the complaint. Some of the key areas for improvement have been identified and will form part of an overall customer experience improvement plan. We have engaged with the Institute of Customer Service to deliver First Impressions, customer service training to our customer experience team. This training has been well received and over time will greatly improve our customer offer.

32. Stock availability averaged 96.1% in January with an average of 385 lines temporarily unavailable (£132k sales value); stock value was £7.26m with a stock turn of 6.09. Customers are being kept informed of the latest situation via the web site and we have seen an improvement in backorders coming through from suppliers. 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.

33. Facilities management in January saw the handover to the FM team of the office refurbishment project to adapt ESPO's offices at Grove Park to meet the needs of the organisation and staff to work flexibly. Other activities include a lighting upgrade in the warehouse and the annual racking inspection. The diesel generator powering critical items in the server room had to be replaced by a hired generator whilst it was being repaired. All statutory inspections and services took place on their relevant due date and a number of service agreements were extended.

34. There was one health and safety incident in January where a driver reported back discomfort on return to the depot without any known contributory factors. This subsequently became a RIDDOR as the driver was absent for over seven days. The driver underwent an assessment and refresher training in manual handling on his return to work Communications and guidance were issued in relation to the change to working arrangements in-light of the Government announcement on the relaxation of Covid measures. Staff were advised that the Grove Park facility is now fully adapted to accommodate hybrid working.

35. The IT helpdesk handled 473 enquiries with a 100% satisfaction rating from internal customers. The month was largely spent preparing for the critical uplift and transition of the Infor System 21 ERP to version 3.1. The IT team worked successfully with all vendors and the system upgrade was successfully implemented on 7th February. Significant progress has been made in the transport planning project with middleware being written for extracting delivery data from System 21 for input into the Roadshow scheduling system. Eventually this process will be automated allowing customer data to be uploaded into the scheduling system which will create a daily transport schedule offering greater operational efficiencies.

36. The project to extend the Grove Park warehouse, which was approved by Chief Officer Group and Management Committee has begun with a submission to LCC Highways outlining the plan to use existing owned land for the development. The outcome will confirm the total amount of space available and will lead to the next stage of the planning application. A project initiation document (PID) has been created setting out the scope, management and overall success criteria. Preliminary discussions have been held with potential consultancy service providers who are able to provide the required technical expertise needed to deliver this kind of property and construction project. A project board will be convened shortly which will provide governance and monitor progress. Further updates will be provided to Management Committee as the project progresses including a finalised timeline for the construction and operation of the new capacity.

Staffing

37. Sickness absence due to Covid continues to be well managed and the increases in infection rates that were seen after Christmas have now decreased in line with national trends. The small number of employees who are currently absent from work with Covid will continue to be offered support. As staff numbers in the office start to increase, safe working arrangements will remain in place to ensure that the potential of any work-based outbreak is reduced as far as is practicable.

38. ESPO have now launched a supervisor development programme which ensures that individuals in these crucial roles receive the right level of support and training to succeed. This has received positive feedback from participants and is due to finish by the end of February. Training on cyber security has also been made available for all staff, which will improve awareness on issues such as phishing and online fraud. The skills developed through this training will help employees in both their employment with ESPO and their personal life.

39. Guidance on how to undertake one-to-ones with staff has also now been shared with staff. This guidance reiterates the need for managers to have regular discussions with staff regarding their wellbeing and performance. Refresher courses have also been provided on Mental Health First Aid, and how all of us can help support colleagues who may be suffering from stress and anxiety.

ESPO Risk and Governance Update

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

40. 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

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