ESPO

MANAGEMENT COMMITTEE – 29 JUNE 2021

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Briefing Note

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 16 March 2022.

Financial Performance – 1 month to April 2022

Summary

Year to April 2022 – Period 1					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	2.3	0.3	13.4%	(0.3)	(10.8%)
Direct Sales	1.4	0.4	34.1%	0.3	30.1%
Framework rebate income	1.1	0.0	4.7%	0.3	38.8%
Total Sales (Exc Gas)	**4.8**	**0.7**	16.5%	**0.4**	8.2%
Stores Margin %	32.8%	2.1%		1.6%	
Directs Margin %	14.1%	(0.7%)		2.7%	
Total Gross Margin	2.7	0.2	8.9%	0.9	51.7%
Total Expenditure	2.0	0.0	0.4%	(0.2)	(10.7%)
Trading Surplus	**0.7**	**0.2**		**0.7**	
Trading Surplus %	13.6%	3.2%		13.9%	

2. One month to April, **a surplus of £0.7m has been made which is £0.2m better than budget**.

3. Following the launch of the new catalogue on 1 April trading has performed well with **early volumes being ahead of budget**. This is despite catalogue selling prices being increased by more than normal (as part of our planned pricing strategy) due to the high levels of inflation on the cost of goods that we have experienced. Rebate income from our frameworks is in line with budget.

4. The surplus is £0.7m better than last year. Directs are ahead by £0.3m as we entered 2022/23 with a better pipeline or orders (remembering last year schools were closed until March 8th) and Rebate income is ahead by £0.3m, also benefitting post Covid.

5. Costs continue to be tightly controlled with expenditure of £2.0m in line with budget.

6. For the full year, the budget is a surplus of £5.7m. April trading has clearly been good and there remains further opportunity in rebate income given inflation and

the great 21/22 final outturn. However, we remain cautious about the impact of increasing cost of goods and a likely higher pay award than budgeted for staff linked to the increased cost of living. (The budget assumed a 2% pay award and each additional 1% costs £140k).

7. Considering all this, **our latest guidance for the full year is a trading surplus of £5.7m (= budget).**

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	2.3		0.3	13.4%	(0.3)	(10.8%)
Direct Sales	1.4		0.4	34.1%	0.3	30.1%
Rebate income	1.1		0.0	4.7%	0.3	38.8%
Total Sales	**4.8**		**0.7**		**0.4**	
Stores Margin	0.7	32.8%	0.1	2.1%	(0.0)	1.6%
Directs Margin	0.2	14.1%	0.0	(0.7%)	0.1	2.7%
Rebate income	1.1		0.0	(0.7%)	0.3	2.7%
Gas Margin	0.0	2.0%	(0.0)	0.0%	(0.0)	(0.4%)
Catalogue Advertising	0.6		(0.0)		0.6	
Misc	0.0		(0.0)		0.0	
Total Gross Margin	**2.7**	55.2%	**0.2**	(3.8%)	**0.9**	19.6%

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	1.4		(0.3)	(17.2%)	(0.1)	(7.7%)
Gas Margin	0.0	2.0%	(0.0)	0.0%	(0.0)	(0.4%)

8. Total sales for April 2023 were £4.8m, which was £0.7m better than budget and £0.4m better than last year, with trading starting positively despite ESPO needing to increase prices to higher degree than normal due to the inflationary price increase that we have seen across our range of goods.

9. **Stores sales were £2.3m and £0.3m / +13% better than budget**. Demand for paper-based products has been particularly strong due to some supply challenges in the market driving customer demand to ‘stock up’ and also against a backdrop where further price increases are expected. Sales are lower than last year with schools, but many schools reopened from a major period of lockdown on 8th March 2021 with March/April/May 2021 benefitting from a release of pent-up demand.

10. **Gross profit margin % for Stores at 32.8% is ahead of budget**, mainly due to timing, with April not seeing the full impact of supplier price rises due to the stock we hold in the warehouse being purchased last year at lower cost. The budget, set in January 2022, makes assumptions about the level of cost inflation we will see this year and this is being monitored and evaluated on a regular basis. We have seen the expected high level of supplier price rises materialise, with further increases being expected which will put additional pressure on budgeted gross profit margin for the full year. However, strong volumes in the early part of the year are currently mitigating this risk.

11. Global supply challenges from issues such as Covid and the war in Ukraine continue to impact stock availability, which has settled at 96%. Whilst lower than pre-Covid levels this appears to be the new realistic baseline, although through April and May Paper availability has been an issue globally and ESPO's team has worked exceptionally hard to secure product for our customers. Product availability is 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 £1.4m and are £0.4m ahead of budget.** We saw strong orders (and sales) through 21/22 and we entered 22/23 with a strong pipeline of orders. From a product perspective, most categories are ahead of last year with Furniture especially ahead in April due to the lead times of product (and schools only re-opening from lockdown in March 2021).

13. **Gross profit margin % for Directs at 14.1% is 0.7% behind budget**, but this is largely due to the mix of product sold in April and is expected to normalise as sales increase through the year.

14. **Rebate income of £1.1m is in line with budget** and continuing to perform very well with a wide range of frameworks offered and a good pipeline in place of contracts secured for the future.

15. **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. 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.

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

17. **Overall gross margin at £2.7m is £0.2m better than budget.**

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	1.1	0.0	(0.0)
Agency/Contract	0.1	(0.0)	(0.0)
Total	**1.2**	**0.0**	**(0.1)**
Overhead Expenses			
Transport	0.2	(0.0)	(0.1)
Warehouse	0.1	0.0	0.1
Procurement	0.0	0.0	0.0
Sales & Marketing	0.3	(0.0)	(0.1)
Finance	0.1	(0.0)	(0.1)
IT	0.1	0.0	(0.0)
Directorate	0.0	(0.0)	(0.0)
Total	**0.8**	**(0.0)**	**(0.2)**
Total Expenditure	**2.0**	**0.0**	**(0.2)**
As % of Total Sales Excluding Gas	**41.5%**	**7.0%**	**(2.0%)**

18. **Total expenditure of £2.0m was in line with budget.** We retain a continued focus on strong cost control across all areas.

19. **Expenditure as a % of sales** is one KPI which allows us to measure cost control in relation to sales. At April this KPI was 41.5% and is 7.0% better than budget and shows costs are being controlled in relation to sales activity. (Note that It's more sensitive in April due to schools closing for Easter vacation.)

ETL/Eduzone

20. 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	32	(23)	(21)
ETL Sales	241	223	231
Total Sales	273	199	211
Eduzone Gross Margin	8	(12)	(11)
Eduzone Gross Margin %	24.6%	(10.8%)	(10.9%)
ETL Gross Margin	26	16	23
ETL Gross Margin %	10.9%	(44.6%)	(20.6%)
Total Gross Margin	34	5	13
Eduzone Expenditure	(34)	4	(3)
ETL Expenditure	(20)	(14)	(17)
Total Expenditure	(54)	(10)	(20)
Trading Surplus	(20)	(5)	(7)
Trading Surplus %	(7.2%)	12.9%	12.8%

21. ETL, our business serving international and private sector customers, has started particularly strongly mainly due to a large furniture contract won worth £0.5m which will be fulfilled over Q1, and whilst generating incremental margin (£), as it is furniture the margin % is slightly lower than normal/budget.

22. Eduzone, our business focusing on early years in the UK, is slightly behind budget, with sales from one larger customer stalled whilst our 22/23 prices are reviewed and agreed.

23. Overall margin £ is largely in line with budget and costs are being controlled. ETL costs are higher due to its increased sales.

24. Overall, a £20k loss has been generated to the end of April which is largely in line with the budget target.

Full Year Expectation

25. The full year budget is a surplus of £5.7m and whilst we are very early in the financial year there are several risks and opportunities emerging. The most significant are:

    a. **Product cost inflation.** ESPO is well known for trying to hold the pricing set out in our catalogue to give customers certainty and an ability to plan their own budgets across the year. High levels of product cost inflation either create additional risk to our budgeted surplus (if we absorb them) or require some deviation from catalogue pricing. As usual, we are trying to protect our customers (which are mainly schools) from the impact as much as we can.

    b. **Framework income via rebates** performed well in 21/22 and our baseline for 22/23 starts approximately £0.3m higher than we had assumed in the budget. In addition, our framework income is likely to benefit from inflationary increases that suppliers apply, de-risking some of the above risk.

    c. **The local Government pay award**. Back in January we budgeted for a 2% increase for 22/23 and with the very real pressures on cost of living workers across the UK are facing it is probably a high pay award will be payable. Each additional 1% would cost ESPO £140k.

26. Considering all this, our guidance for the full year remains the budget, of a £5.7m surplus.

ESPO Operational Progress

27. In April ESPO's distribution centre picked and dispatched 81,654 order lines, valued at £2.27m and the transport fleet with couriers made 11,638 deliveries weighing 638k kgs. Warehouse picking was performed at a rate of 29 lines per hour against our target of 32 reflecting the disruption to the order-flow of the Easter holidays. The error rate detected by QA was 4% against the budget of 3%. The average order value for stock orders in April was £172 against a budget of £157. Operational and IT costs year to April were £893k against a budget of £946k. Stores sales were 13.4% higher than budget driving slightly higher transport costs.

28. The Customer Services (CS) team handled 4,582 calls across the four customer service lines. In terms of call response, the average speed of answer was 42 seconds against a target of 30 seconds. This reflects the increase in calls in the Directs channel checking on delivery times and the current vacancies in the CS team. The team processed 16,421 customer orders valued at £2.507m. Online and electronic converted orders were at 66% of the total reflecting an increasing trend towards digital ordering via e-catalogues or through the web. Direct orders currently valued at £1.79m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team. Call performance remains positive, with over 91% of calls answered overall, compared to 83% in March.

29. Stock availability on the top 1,000 lines achieved 98.1% in April, stock value was £8.3m with a stock turn of 5.9. We are anticipating future availability issues with paper and card related products with subsequent price increases due to industry-wide production capacities. Customers are being kept informed of the latest stock availability through the web site. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at (Kent County Supplies) KCS in Maidstone and by its printer in Poland.

30. Facilities management in April included a number of scheduled repairs to the in-rack sprinklers and high-bay racking; mobile and fixed printers; warehouse lighting; warehouse doors and emergency call point repairs. Upgrades were made to the building lighting with LED replacements and the fire damper between the warehouse and offices was serviced. There were also inspections to fire safety system, pest control, intruder alarm and CCTV system with various repairs to and maintenance of equipment throughout the Grove Park facility.

31. There was one health and safety incident in April where a forklift truck driver on nights injured a hand whilst moving a wooden pallet which required minor first aid treatment. A 'speed awareness' training package was given to drivers at the

Welsh out-base and Leicester staff will receive this training over the coming weeks. ESPO has taken delivery of two battery powered goods vehicles as part of a government funded trial and the charging points are currently being installed. Covid is now being managed in the same way as other respiratory infections such as flu as part of Governments “Covid-19 response: Living with Covid-19” guidance. Communications and guidance were issued in relation to the change to working arrangements in-light of the Government announcement. Staff were advised that the Grove Park facility is now fully adapted to accommodate hybrid working.

32. The IT helpdesk handled 480 enquiries with a 100% satisfaction rating from internal customers. Following an audit recommendation, a procurement process was undertaken to select a cyber-security partner and Nettitude was formally selected as our supplier of Cyber Incident Response Services and they will provide specialist support and guidance to help us mitigate our risk in this area. Our mix of “Endpoint Protection” tools (e.g., antivirus, firewall etc. on laptops and desktops) have been revised, with McAfee and Sophos being de-commissioned, and Microsoft Defender being installed on all devices.

33. We have taken the opportunity to review our support arrangements for Infor System 21 and IBM AS400 which puts less day-to-day technical reliance on the IT team. Through a service agreement we will be utilising IMS for System 21 support and Recarta for IBM support. Approval was granted to employ two IT apprentices to the IT Service Desk. This opens the door to moving additional work from Application Support into the Service Desk and is one of a number of strands of activity that are looking to re-balance the workload within the overall team.

34. 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 and service benefits.

35. The project to extend the Grove Park warehouse, is now well underway. The pre-application work is well advanced with Pick Everard appointed as our design and project management partner under a SCAPE framework agreement. A project board has been created and the project budget with tolerances has been agreed. Work is now underway preparing for planning permission and construction contractor procurement with an expected completion of the project in Q2 2024. A separate progress report is included in this month’s management pack. Further updates will be provided to Management Committee as the project progresses.

Staffing

36. Sickness absence continues to be well managed, and covid infection rates have now reduced to zero at point of authorship. Staff numbers in the office have continued to increase in line with national guidance, and safe working arrangements remain in place to ensure that the potential of any work-based

outbreak is reduced as far as is practicable. Reminders have also been provided to staff on the steps they need to follow if they test positive for Covid, to ensure that everyone remains extra vigilant. Guidance will also be issued on how to assist anyone who shows symptoms for ‘monkeypox’. Whilst this currently appears to be highly unlikely to have the same impact as covid, it is important that we provide assurance for staff who may be concerned.

37. The national negotiating body for Local Government pay have now received a submission from the Trade Unions for this year’s cost of living increase. Their request is for a minimum increase of £2,000 or the current rate of RPI (whichever is greater) on all spinal column points. In addition, they have also asked for a review on the current mileage rates, the introduction of a homeworking allowance, a reduction in the working week and an increase in annual leave. The LGA are now seeking feedback from Local Authorities before providing a response. All parties are aiming to resolve this negotiation quicker than last year, so that issues such as recruitment and turnover are not negatively impacted.

38. Leicestershire County Council are aiming to introduce a new recruitment process by October 2022. This will allow ESPO to be become more flexible in terms of job applications and also ensure that the entire recruitment process is completed as quickly as possible.

ESPO Risk and Governance Update

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

39. 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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