MANAGEMENT COMMITTEE – 22 MARCH 2023

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 update provided to Members in November 2022.

Financial Performance Summary - 10 months to January 2023

January –Trading in the month

2. Catalogue trading in the month of January was ahead of budget across all segments, picking up after a slow. Rebate income has remained strong across the whole year, benefitting from strong demand for our frameworks and the impact of inflation.

3. Following the October increases in selling prices we have seen the expected improvement in gross margin % in both Stores and Directs, although further pressure remains across the remainder of Q4 from increases in the price of exercise books and categories where we have absorbed cost price increases. Costs continue to be tightly controlled, but were higher than budget from the greater sales volumes and impact of the pay award. **Overall the surplus for January was £774k, which was £169k behind budget.**

January – Trading 10 months year to date

Year to January 2022 – Period 10					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	44.3	2.7	6.6%	4.4	11.1%
Direct Sales	18.5	2.5	15.9%	2.2	13.7%
Rebate plus fee income	9.2	1.2	15.3%	1.3	16.8%
Total Sales (Exc Gas)	**72.1**	**6.5**	9.9%	**8.0**	12.5%
Stores Margin %	28.4%	(2.3%)		(2.5%)	
Directs Margin %	15.3%	0.5%		1.2%	
Total Gross Margin	25.9	1.6	6.7%	2.3	10.0%
Total Expenditure	20.1	(1.0)	(4.7%)	(2.1)	(9.6%)
Trading Surplus	**5.8**	**0.6**		**0.2**	
Trading Surplus %	8.1%	0.2%		(0.7%)	

4. After 10 months, **a surplus of £5.8m has been made which is £0.6m better than budget**.

5. Overall, we have seen pleasing demand this year with sales **volumes well ahead of budget and higher demand being seen throughout,** predominantly in the first half of the year. More recently, whilst sales are still ahead trading has softened slightly, linked to some early buying and concerns over budgets and energy prices.

6. Supplier prices continued to increase through the first half of the year, linked to the high global energy prices and high levels of wage and general inflation. This created pressure on margin and as a result selling prices were increased in mid-October across a selected range of the most affected products to preserve margin. The latest benchmarking indicates we are highly competitive and so we expect market share to continue to rise.

7. **Rebate income from our frameworks is £1.2m ahead of budget**, continuing to benefit from inflation and continued growth in our core framework offerings.

8. **Costs continue to be tightly controlled with expenditure of £20.1m, which is £1.0m higher than budget due to the effect of higher warehouse and distribution costs associated with fulfilling additional Stores sales**, and a higher pay award than budgeted. The Local Government Pay Award for 22/23 was £1,925 per person, (averaging 6% for ESPO) vs a 2% award being budgeted.

9. The **surplus is £0.2m better than last year**. Greater trading volumes and inflationary price increases have benefited our gross profit margin, and this has been sufficient to cover our own inflation cost pressures driving a greater surplus this year.

10. **For the full year, the budget is a surplus of £5.8m**. Although a YTD surplus position of £5.8m has already been achieved, surpassing the full year budget target, the last 2 months of the year are traditionally quieter and we have seen a significant increase in the cost of exercise books which will affect margin in Q4 as we will look to hold sales pricing in the last few months of the year to give certainty and value to our school customers.

11. We expect to exceed the budget and would give a **guidance range of a surplus of between £5.9m - £6.0m.** Our latest Catalogue benchmarking shows we are highly competitive on price and we expect volumes to be strong in the remainder of the year albeit at a slightly weaker margin %, with the next price rises planned for 1 April 2023. We tightly monitor our costs, but inflationary pressures remain, with fuel and carrier costs in logistics and the pay award being the most significant. We also expect rebate income growth to cool and perform more closely to budget in the remainder of Q4.

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	44.3		2.7	6.6%	4.4	11.1%
Direct Sales	18.5		2.5	15.9%	2.2	13.7%
Rebate income	9.2		1.2	15.3%	1.3	16.8%
Total Sales	**72.1**		**6.5**		**8.0**	
Stores Margin	12.6	28.4%	(0.2)	(2.3%)	0.3	(2.5%)
Directs Margin	2.8	15.3%	0.5	0.5%	0.5	1.2%
Rebate income	9.2		1.2	0.5%	1.3	1.2%
Gas Margin	0.4	2.8%	0.1	(0.0%)	0.2	0.4%
Catalogue Advertising	0.7		(0.1)		(0.1)	
Misc	0.2		0.1		0.2	
Total Gross Margin	**25.9**	**35.9%**	**1.6**	**(1.1%)**	**2.3**	**0.2%**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	13.9		2.3	19.8%	4.1	41.3%
Gas Margin	0.4	2.8%	0.1	(0.0%)	0.2	0.4%

12. **Total sales up to January 2023 were £72.1m, which was £6.5m better than budget and £8.0m better than last year**, with trading continuing strongly despite ESPO needing to increase prices to a higher degree than normal back in April 2022 due to the inflationary price increases that we have seen across our range of goods.

13. **Stores sales were £44.3m and £2.7m / +6.6% better than budget**. Customers made good use of our discount windows earlier in the year, perhaps to ‘stock up’, safeguard their supply and/or anticipating further price increases. Sales slowed across Q3 before picking up again in early Q4 following competitors increasing their prices.

14. **Gross profit margin for Stores at 28.4% is 2.3% lower than budget** as a high in-year price rises from suppliers across a number of key product lines. A selected range of products had mid-year price rises applied in October to partly mitigate this but are seeing further pressure on exercise book prices which will keep margin depressed in Q4, despite higher expected sales volumes.

15. Global supply challenges continue post-covid with longer lead times continuing. These have been fully programmed and increased volumes of key stock items held where needed. **Stock levels were increased earlier this year to improve availability**, **with gross stock reaching £10.1m at the end of August and now at £9.3m in January, having settled prior to our Spring stock build for our peak summer trading**. January stock availability returned to target levels at c.98.5%-99%. Stock values are c.10% higher than last year due to cost price inflation and longer lead times.

16. **Directs sales were £18.5m and is £2.5m ahead of budget.** High levels of orders (and sales) through 22/23 have been seen and we benefitted from starting the year with a good pipeline of orders. Spending has slowed significantly in December and January but remains slightly ahead of budget in these months.

17. **Gross profit margin % for Directs at 15.3% is 0.5% ahead of budget** and this is largely product mix related. Similar to stores sales there has been some impact of in-year price rises from suppliers being seen through Q2 and Q3 affecting margin levels. A selected range of products had mid-year price rises applied in October to mitigate this.

18. **Rebate income of £9.2m is £1.2m ahead of budget** and continues to exceed expectations with a wide range of frameworks offered and a good pipeline in place of contracts secured for the future.

19. **Margin from our gas service is closely in line with budget**. This service relates to a customer bill validation service, and also acting as a procurement agent on for 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 in forward buying gas to manage this risk more effectively and in line with the agreed risk profile for the service.

20. Our other income from selling advertising space in the catalogue is in line with budget and our miscellaneous income relating to bank interest, is slightly ahead and benefitting from increases in interest rates.

21. **Overall gross profit margin at £25.9m is £1.6m better than budget.**

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	11.0	0.3	(0.7)
Agency/Contract	2.1	(0.8)	(0.5)
Total	**13.1**	**(0.4)**	**(1.2)**
Overhead Expenses			
Transport	2.5	(0.5)	(0.4)
Warehouse	0.7	(0.0)	0.8
Procurement	0.2	0.1	0.1
Sales & Marketing	0.9	(0.1)	(0.1)
Finance	1.4	(0.0)	(1.1)
IT	1.0	0.1	(0.1)
Directorate	0.4	(0.1)	(0.0)
Total	**7.0**	**(0.6)**	**(0.9)**
Total Expenditure	**20.1**	**(1.0)**	**(2.1)**
As % of Total Sales Excluding Gas	27.8%	1.2%	0.2%

22. **Total expenditure of £20.1m was £1.0m higher than budget** due to the effect of the higher than expected pay award, and higher warehouse and distribution costs from fulfilling additional Stores sales.

23. The Local Government Pay Award for 22/23 was paid in December of which £0.6m was not budgeted. The award was £1,925 per person (average 6% cost to ESPO) with a 2% increase being budgeted.

24. Higher transport and warehouse costs are associated with fulfilling additional sales volumes via third party distributors particularly into the South West, West Midlands and Scotland and the effects of fuel price inflation.

25. A continued focus on strong cost control across all areas remains.

26. **Expenditure as a % of sales** is one KPI which allows us to measure cost control in relation to sales. **This KPI is 27.8% and is 1.2% better than budget** and shows costs continue to be controlled in relation to sales activity.

ETL/Eduzone

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

ETL and Eduzone		
£k	**Actual**	**B/(w) than Budget**
Eduzone Sales	488	(171)
ETL Sales	833	531
Total Sales	1,321	360
Eduzone Gross Margin	169	(65)
Eduzone Gross Margin %	34.5%	(0.9%)
ETL Gross Margin	138	4
ETL Gross Margin %	16.5%	(27.8%)
Total Gross Margin	306	(61)
Eduzone Expenditure	(160)	19
ETL Expenditure	(97)	(16)
Total Expenditure	(257)	3
Trading Surplus	49	(58)
Trading Surplus %	3.7%	(7.4%)

28. ETL, our business serving international and private sector customers, started the year strongly due to a large furniture contract which was fulfilled across Q1 and Q2. Whilst generating incremental margin (£), as it is furniture the margin % is slightly lower than normal/budget. International sales are also growing and benefitting from a change in model from exclusively using a single international distributor to now using several. Rebate income is behind budget as a result of changes to the My School Fund programme which is likely to become solely an ESPO loyalty scheme as opposed to income generating in ETL.

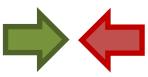
29. Eduzone, our business focusing on early years in the UK, remains behind budget as a result of sales from a major customer stalling after they were put on stop in April for not paying their debts. The customer visited ESPO in September and sales recommenced in October and remain strong. Mitigating this, a number of new nursery groups have signed up to our Nursery Group Package during September to January, broadening the customer base and improving the long term prospects.

30. **Overall Eduzone margin is largely in line with budget and costs are being controlled**. ETL margin is diluted due to lower margin on the large furniture order contract, other sales within ETL are closely in line with budgeted margins.

31. **Overall a £49k surplus has been generated to the end of January by ETL and Eduzone**. Given the reduced trading in Eduzone and loss of My School Fund rebate in ETL **we expect to be behind the £100k full year budget**. In January we reviewed and implemented a revised staff cost allocation between ESPO and ETL/Eduzone to apply a more realistic estimate of staff costs.

<u>Full Year Expectation</u>

32. The ESPO full year budget is a surplus of £5.7m. At January a surplus of £5.8m has been achieved and looking to the final quarter we are mindful of the following risks/opportunities:



a. Sales volumes YTD have far exceeded our expectation. Our latest benchmarking suggests we remain highly competitive on price, with some key competitors increasing prices in January 2023 and despite high winter energy prices impacting customer budgets, sales in January have been encouraging.

b. However, during the course of the year we have been forced to accept numerous mid-year price increases from suppliers. We absorbed much of this to give certainty and value to our customers, and increased the price on a selected number of lines in October 2022 to mitigate some of the cost. For quarter 4 we expect the benefit from additional sales to be eroded by the lower margin % achieved on them. Our next price increase is linked to our new catalogue launch and planned for April 2023, at which point margin will improve to more normal levels.

c. The Local Government pay award was agreed as a fixed increase of £1,925 per person and compares to a 2% increase being budgeted for 22/23. The pay award was paid in December 2022 (back dated to April 2022) and we expect further unbudgeted cost of c£0.2m across quarter 4.

d. Logistic costs remain higher than budget, suffering from high fuel prices and general inflationary pressures. We have also seen an increase in deliveries outside of our core member area, at additional cost, as a result of new business won (for example Scotland.)

33. Considering all this, **our latest guidance for the full year is a trading surplus in the range of £5.9m - £6.0m.** (Budget = £5.7m)

ESPO Full P&L – Jan 2023

	Year to Date @ Jan 23					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	44,338		41,604	6.6%	39,906	
Direct	18,544		16,004	15.9%	16,312	
Rebate Income	9,241		8,014	15.3%	7,911	
Total Sales	**72,123**		**65,621**		**64,128**	
Cost of Sales						
Stores	31,755		28,831		27,585	
Direct	15,711		13,635		14,009	
Total Cost of Sales	**47,466**		**42,466**		**41,594**	
Margin						
Stores	12,583	28.4%	12,772	30.7%	12,321	30.9%
Direct	2,833	15.3%	2,369	14.8%	2,303	14.1%
Rebate Income	9,241		8,014		7,911	
Gas	391	2.8%	327	2.8%	237	2.4%
Catalogue Advertising	692		775		802	
Other Income	165		17		(13)	
Total Margin	**25,906**	35.9%	**24,273**	37.0%	**23,561**	36.7%
Warehouse and Transport						
Employee Costs						
Staff	4,466		4,625		4,278	
Agency/Contract	1,894		1,255		1,465	
Total	**6,360**		**5,880**		**5,743**	
Overhead Expenses						
Transport	2,488		1,978		2,041	
Warehouse	706		662		1,517	
Total Warehouse and Transport	**9,555**	21.5%	**8,521**	20.5%	**9,300**	23.3%
Head Office						
Employee Costs						
Staff	6,531		6,704		5,991	
Agency/Contract	161		27		94	
Total	**6,693**		**6,731**		**6,085**	
Overhead Expenses						
Procurement	159		213		215	
Sales & Marketing	880		809		735	
Finance	1,379		1,360		318	
IT	1,022		1,118		944	
Directorate	392		331		360	
Total	**3,834**		**3,830**		**2,573**	
Total Head Office	**10,526**		**10,561**		**8,658**	
Total Expenditure	**20,081**	**27.8%**	**19,082**	**29.1%**	**17,958**	**28.0%**
Trading Surplus	**5,825**	**8.1%**	**5,190**	**7.9%**	**5,602**	**8.7%**

ETL/Eduzone Combined P&L – Jan 2023

ETL & Eduzone Results	January-23 YTD					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Sales	1,321.0		960.8		830.1	
Total Sales	**1,321.0**		**960.8**		**830.1**	
Cost of Sales						
Cost of Sales	1,014.9		593.7		520.0	
Total Cost of Sales	**1,014.9**		**593.7**		**520.0**	
Margin						
Margin	306.1		367.1		310.1	
Total Margin	**306.1**	23.2%	**367.1**	38.2%	**310.1**	37.4%
Expenditure						
Employee Costs & Agency	99.8		57.7		49.6	
Commission	0.8		0.0		4.5	
Carrier	46.4		69.0		70.7	
Marketing Expenses	33.7		48.8		45.8	
Catalogue Print & Distribution	44.4		35.0		26.4	
Consultancy	2.6		1.9		1.9	
Support / Legal Prof	2.5		8.3		8.3	
Accountancy	4.4		2.0		9.0	
Insurance	17.4		16.6		11.2	
Audit	0.0		0.0		0.0	
Office Machine Maint / Software	1.7		2.9		2.6	
Merchant Services	1.3		3.8		1.8	
Depreciation	0.0		0.0		0.0	
Other Expenses	2.2		14.2		0.7	
Total Expenditure	**257.3**	**19.5%**	**260.1**	**27.1%**	**232.4**	**28.0%**
Trading Surplus /(Deficit)	**48.8**	**3.7%**	**107.0**	**11.1%**	**77.7**	**9.4%**
Loan Interest	16.0		16.3		0.0	
Net Profit / (Loss)	**32.8**	**2.5%**	**90.7**	**9.4%**	**77.7**	**9.4%**

ESPO Operational Progress

34. In January ESPO's distribution centre picked and dispatched 135,367 order lines, valued at £4.079m and the transport fleet with couriers made 21,627 deliveries. Warehouse picking was performed at a rate of 32 lines per hour, in line with target and the error rate detected by QA was 2% against the target of 3%. The average order value for stock orders YTD to January was £201.94 compared to £194.35 last year. Operational and IT costs year to January were £8.790m against a budget of £8.114m. Stores sales to January were 7.8% above budget driving higher transport and picking costs. A scheduled joint consultative committee meeting with the unions was held on Friday 18th January.

35. The Customer Services team handled 6,509 calls across the five customer service channels. Average wait times across all teams was 34 seconds, with 96% of calls answered overall. The team processed 28,879 customer orders valued at £4.100m. Online and electronic converted orders were at 53.6% of the total. Direct orders currently valued at £1.456m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team. We recorded 2,419 responses to email enquiries using our recently installed ticketing system. Our FEEFO customer rating improved to 94%. Multi-skilling our customer service staff to handle directs calls at the first point of contact has commenced, this will greatly improve the customer experience, reduce handling times and multiple hand-offs. This in turn will enable us to simplify the front-end phone messaging options in the early part of next year.

36. This year we have achieved a Trusted Service award with our feedback partner FEEFO. Our overall score was 4.3, which is slightly below what we have achieved in previous years. However, being mindful of the supply chain challenges experience for an extended period which created availability issues, the overall award is pleasing and demonstrates that our customers are satisfied with the service we provide, despite the many challenges faced. Our annual Institute of Customer Service benchmarking survey has taken place. The results for 2022 are positive, with our overall satisfaction score at 85.3 compared to 83 in 2021 and 6 points above the UK benchmark score. The likelihood of customers' remaining with ESPO and recommending ESPO are also high in comparison to the UK average. The next steps will be to work through the detailed findings of the survey to develop a customer experience roadmap for further improvements.

37. Stock availability averaged 98.8% in January, stock value was £9.377m with a stock turn of 4.8. Following earlier disruption in the supply chain the availability situation has considerably improved and is back to the target service levels. This is reflected in the reduction in calls to customer services chasing outstanding orders and an improvement in customer feedback.

38. Facilities management In January ensured that all statutory inspections and, repair and maintenance services took place on their relevant due date. This included maintenance to the boiler room equipment, and sprinkler system. With inspections on racking lifting equipment and the fire system. A project to

upgrade the sprinkler-house pump equipment was initiated and a project plan to upgrade the warehouse Wi Fi jointly agreed with IT team. The FM team have been active in supporting the warehouse extension project; liaising with potential FLT and racking suppliers and in considering the consequential improvement plan.

39. There were three minor Health and Safety issues in January, with a warehouse agency picker claiming discomfort in the wrist whilst lifting a tote. Investigation concluded they were not following the safe system of work. There was no discomfort, swelling or physical signs of injury the following day. The two other issues related to minor cuts. A tool box talk was delivered per shift and a formal safety alert to be issued to all staff about the importance of detracting knife blades, not using lock function and to cut away from them. The latest round of random drug and alcohol testing for safety critical roles took place on 26.01.23. Three drivers and eight warehouse staff were tested. There were no alcohol failures and subsequent laboratory analysis on urine samples were all negative. In line with the updated policy future drug tests will use a mouth swab protocol which will be enable results to be available on the day.

40. As the warehouse extension construction phase plan is developed ESPO H&S will ensure that relevant risk assessments are compliant with construction design and management regulations (CDM) and industry best practice and that the safety of ESPO employees is considered at all times. In line with the evolution of the overall programme, the risk register will migrate from the principal designer to the principal contractor.

41. The IT helpdesk handled 530 enquiries with a 100% satisfaction rating from internal customers. We began installation of a replacement WiFi system into the office settings in January and will continue into the warehouse in February. This will provide much greater strength and resilience into the signal for RDT’s and other mobile devices. Issues with the e-com Tradecentric solution are now being resolved which will enable the Magento 2.4.4 web-site upgrade to proceed. The 2021-22 IT General Controls audit Report was issued by LCC Audit, giving us Substantial Assurance. Looking ahead the IT team have held a number of workshops in preparation for a project to enable integration with PS financials and Capita SIMS into ESPO’s enterprise system.

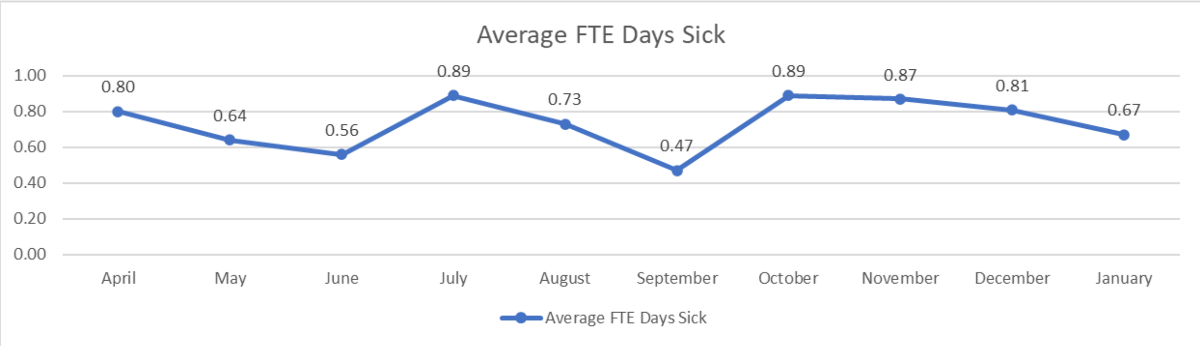
42. Following previous updates to Management Committee, the project to extend the Grove Park warehouse is moving forward under the governance of the Project Board. The focus is currently on preparing for planning permission and onboarding the principal contractor. We have an expected completion of the project in Q2 2024 and shall provide the next update once work has commenced.

Staffing

Wellbeing

43. The monthly average FTE sick absence days was 0.67 in January which was a significant reduction from 0.81 in December. Monthly absence case conferences are being held with Assistant Directors whom have long term

cases in their areas. The three main causes of sick absence during the last quarter have been 1. stress/depression, mental health, 2. musculo-skeletal and 3. cough, cold & flu.



Recruitment & Retention

44. Two appointments have been made to Procurement roles following a refreshed advertising campaign. However, a number of roles are still vacant. A Resourcing Advisor role is being scoped which would concentrate on marketing ESPO vacancies, optimising recruitment processes and analysing recruitment and retention data.

Learning & Development

45. Details of corporate mandatory training completion rates have been shared with all employees and the current focus is on increasing compliance. The 2023/24 Learning & Development plan is under development with input from managers at all levels.

Equality, Diversity & Inclusion

46. Employees are being consulted around the creation of a Multi-Faith Prayer & Contemplation space at the Leicester office. This will support ESPO as an inclusive employer.

ESPO Risk and Governance Update

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

47. 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.

48. Members of Management Committee are asked to:

    a) Note the contents of the report.

Officer to Contact

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Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract

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