Agenda Item 8

ESPO

MANAGEMENT COMMITTEE – 28 JUNE 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 at the Management Committee meeting in March 2023.

Financial Performance – 1 month to April 2023

Summary

Year to April 2023 – Period 1					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	3.0	0.3	12.0%	0.7	31.6%
Direct Sales	1.0	(0.1)	(7.4%)	(0.4)	(27.3%)
Rebate plus fee income	1.5	0.1	11.2%	0.3	31.4%
Total Sales (Exc Gas)	**5.5**	**0.4**	7.5%	**0.9**	19.4%
Stores Margin %	32.4%	1.4%		(0.4%)	
Directs Margin %	8.0%	(6.6%)		(6.1%)	
Total Gross Margin	2.6	0.3	11.0%	0.2	6.3%
Total Expenditure	1.9	0.1	4.9%	0.0	1.6%
Trading Surplus	**0.6**	**0.3**		**0.0**	
Trading Surplus %	11.7%	5.9%		(1.9%)	

2. After 1 month, **a surplus of £0.6m has been made which is £0.3m better than budget** and in line with last year.

3. Following the launch of the new catalogue on 1 April, trading has performed well with **early volumes ahead of budget**. This is despite catalogue selling prices increasing at high levels (as part of our planned pricing strategy) due to high inflation on the cost of goods. The market remains very competitive but ESPO's offer is well placed and competitive in the market. Rebate income from frameworks has also started well and is slightly ahead of budget.

4. Costs continue to be tightly controlled with expenditure of £1.9m in line with budget.

5. For the full year, the budget is a surplus of £6.2m. April trading (and subsequently May) has been positive and the latest pay award offer from employers is in line with the budget assumption. At this very early stage in the year these give us reasons to have some confidence in achieving the target.

6. Considering all this, **our latest guidance for the full year is a trading surplus of £6.2m, in line with budget.**

Sales and Margin

Sales and Margin						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Stores Sales	3.0		0.3	12.0%	0.9	45.2%
Direct Sales	1.0		(0.1)	(7.4%)	(0.4)	(27.3%)
Rebate income	1.5		0.1	11.2%	0.3	31.4%
Total Sales	**5.5**		**0.4**		**0.9**	
Stores Margin	1.0	32.4%	0.1	1.4%	0.4	6.6%
Directs Margin	0.1	8.0%	(0.1)	(6.6%)	(0.1)	(6.1%)
Rebate income	1.5		0.1	(6.6%)	0.3	(6.1%)
Gas Margin	0.0	1.8%	0.0	0.0%	0.0	(0.2%)
Catalogue Advertising	-		-		(0.6)	
Misc	0.0		0.0		0.0	
Total Gross Margin	**2.6**	**47.2%**	**0.3**	**1.5%**	**0.2**	**(7.3%)**

Gas						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Gas Sales	2.3		0.7	40.2%	1.0	69.4%
Gas Margin	0.0	1.8%	0.0	0.0%	0.0	(0.2%)

7. Total sales for April 2023 were £5.5m, which was £0.4m better than budget and £0.9m 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.

8. **Stores sales were £3.0m and £0.3m / +12% better than budget**. Demand for core products has been strong through April although this slowed slightly in May. Customers have been making good use of our loyalty based promotions, which in April supported Multi-Academy Trusts.

9. **Gross profit margin % for Stores at 32.4% is ahead of budget**. Margin previously eroded at the end of last year with supplier in year price increases have been restored with new pricing released in April. Exercise books sales and margin through April have been positive despite this being an area that competitors have targeted on price this year to attempt to win back lost sales. Benchmarking shows that ESPO pricing is currently competitive and an additional exercise book offer was planned for May/June to ensure ESPO remains positioned as a leader on exercise book pricing.

10. **Directs sales were £1.0m and are £0.1m behind budget.** As anticipated in the budget directs sales, particularly furniture products, has started more slowly than last year, where we entered the year with a strong pipeline of orders (pent up demand from Covid) and this year the pipeline has fallen back to more normal levels. This was factored into the budget.

11. **Gross profit margin % for Directs at 8% is 6.6% behind budget**, but this is largely due to the mix of products sold in April and orders being fulfilled which customers ordered in March at last year's prices. Margin will return to budget as we progress through the year.

12. **Rebate income of £1.5m is in line with budget** and up 31% on last year. It continues to perform well with the wide range of frameworks offered and a good pipeline in place of contracts secured for the future.

13. Our other income from selling advertising space in the catalogue and misc. income are all largely in line with budget.

14. **Overall gross profit margin at £2.6m is £0.3m better than budget.**

Expenditure

Expenditure			
£m	**Actual**	**B/(w) than budget**	**B/(w) than LY**
Employee Costs			
Staff	1.2	0.1	(0.1)
Agency/Contract	0.1	(0.0)	0.0
Total	**1.3**	**0.1**	**(0.1)**
Overhead Expenses			
Transport	0.2	0.0	0.0
Warehouse	0.1	0.0	0.0
Procurement	0.0	0.0	(0.0)
Sales & Marketing	0.1	(0.0)	0.2
Finance	0.2	(0.0)	(0.0)
IT	0.1	(0.0)	(0.0)
Directorate	0.1	(0.0)	(0.0)
Total	**0.7**	**(0.0)**	**0.1**
Total Expenditure	**1.9**	**0.1**	**0.0**
As % of Total Sales Excluding Gas	**35.5%**	**4.4%**	**6.0%**

15. **Total expenditure of £1.9m is in line with budget.** We retain a continued focus on strong cost control across all areas.

16. **Expenditure as a % of sales** is one KPI which allows us to measure cost control in relation to sales. At April this KPI was 35.5% and is 4.4% 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

17. 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	42	(5)	10
ETL Sales	38	13	(203)
Total Sales	80	8	(193)
Eduzone Gross Margin	12	(5)	4
Eduzone Gross Margin %	28.5%	(6.5%)	4.0%
ETL Gross Margin	10	3	(16)
ETL Gross Margin %	27.4%	(4.4%)	16.5%
Total Gross Margin	22	(2)	(12)
Eduzone Expenditure	(25)	2	9
ETL Expenditure	(8)	(0)	12
Total Expenditure	(33)	2	21
Trading Surplus	(11)	(0)	9
Trading Surplus %	(13.4%)	1.2%	(6.1%)

18. ETL, our business serving international and private sector customers, has started strongly with sales ahead of budget. There is a large difference to last year due to a large, one-off furniture contract occurring at this time last year.

19. Eduzone, our business focusing on early years in the UK, is slightly behind budget, but ahead of last year. The nursery market faces similar financial pressures to schools but lacks some of the additional funding that was announced for schools in Autumn 2022. Combined with an increase in nursery hours for parents, which are less lucrative for nurseries, this puts additional financial pressure on the sector.

20. As a result, we continue to see large nursery groups continue to grow through acquisitions, with some nurseries being acquired being weighted to more affluent socio-economics and stronger financial performance. Nursery groups appear to be performing well due to their balance sheet security, sharing of administrative burden and ability to navigate through staffing shortages.

21. Overall margin and expenditure is largely in line with budget and costs are being controlled.

22. Overall a £11k loss has been generated to the end of April, this is in line with budget and ahead of last year.

Full Year Expectation

23. At this early stage in the year our guidance for the full year remains the budget, of a £6.2m surplus.

ESPO Full P&L – April 2023

	Year to Date @ April 23					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	3,002		2,681	12.0%	2,282	
Direct	1,037		1,120	(7.4%)	1,427	
Rebate Income	1,453		1,307	11.2%	1,106	
Gas	2,330		1,662	40.2%	1,376	
Catalogue Advertising	-		-	#DIV/0!	571	
Other Income	44		6	606.7%	1	
Total Sales	**5,492**		**5,108**		**4,814**	
Cost of Sales						
Stores	2,029		1,850		1,533	
Direct	954		955		1,225	
Gas	2,289		1,633		1,349	
Total Cost of Sales	**2,983**		**2,805**		**2,759**	
Margin						
Stores	973	32.4%	831	31.0%	748	32.8%
Direct	83	8.0%	164	14.7%	201	14.1%
Rebate Income	1,453		1,307		1,106	
Gas	41	1.8%	29	1.8%	27	2.0%
Catalogue Advertising	-		-		571	
Other Income	44		6		1	
Total Margin	**2,595**	47.2%	**2,338**	45.8%	**2,655**	55.2%
Warehouse and Transport						
Employee Costs						
Staff	525		590		428	
Agency/Contract	70		50		99	
Total	**595**		**640**		**527**	
Overhead Expenses						
Transport	170		170		183	
Warehouse	62		75		62	
Total Warehouse and Transport	**827**	27.5%	**885**	33.0%	**772**	33.9%
Head Office						
Employee Costs						
Staff	672		749		654	
Agency/Contract	10		3		13	
Total	**682**		**752**		**667**	
Overhead Expenses						
Procurement	12		14		6	
Sales & Marketing	106		84		264	
Finance	155		149		140	
IT	108		104		100	
Directorate	60		51		49	
Total	**441**		**403**		**559**	
Total Head Office	**1,123**		**1,155**		**1,226**	
Total Expenditure	**1,949**	**35.5%**	**2,040**	**39.9%**	**1,998**	**41.5%**
Trading Surplus	**645**	**11.7%**	**298**	**5.8%**	**657**	**13.6%**

ETL/Eduzone Combined P&L – April 2023

ETL & Eduzone Results	Apr-23					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Sales	79.6		71.2		272.8	
Total Sales	**79.6**		**71.2**		**272.8**	
Cost of Sales						
Cost of Sales	57.3		47.0		238.6	
Total Cost of Sales	**57.3**		**47.0**		**238.6**	
Margin						
Margin	22.3		24.2		34.2	
Total Margin	**22.3**	28.0%	**24.2**	34.0%	**34.2**	12.5%
Expenditure						
Employee Costs & Agency	16.4		16.4		16.6	
Commission	0.0		0.0		0.8	
Carrier	7.6		4.8		3.7	
Marketing Expenses	2.5		5.4		6.1	
Catalogue Print & Distribution	4.1		4.8		22.2	
Consultancy	0.0		0.0		0.6	
Support / Legal Prof	0.0		0.0		0.8	
Accountancy	0.0		0.0		0.0	
Insurance	2.0		2.0		1.6	
Audit	0.0		0.0		0.0	
Office Machine Maint / Software	0.2		0.3		0.2	
Merchant Services	0.1		0.2		0.3	
Depreciation	0.0		0.0		0.0	
Other Expenses	0.0		0.6		0.8	
Total Expenditure	**32.9**	41.4%	**34.6**	48.5%	**53.9**	19.8%
Trading Surplus /(Deficit)	**(10.6)**	-13.4%	**(10.4)**	-14.5%	**(19.7)**	-7.2%

ESPO Operational Progress

24. In April, ESPO's distribution centre picked and dispatched 85,773 order lines, valued at £3.007m and the transport fleet with couriers made 10,975 deliveries. Warehouse picking was performed at a rate of 34 lines per hour against our target of 35 and the error rate detected by QA was 1% against the

target of 3%. The two-week Easter holiday impacted productivity. The average order value for stock orders YTD to April was £201.83 compared to £171.79 last year. Operational and IT costs year to April were £980k against a budget of £1.035m. Stores sales to April were 12% above budget.

25. The Customer Services team handled 3,231 calls across the five customer service channels. Average wait times across all teams was 22 seconds, with 97% of calls answered overall. The team processed 16,797 customer orders valued at £3.037m. Online and electronic converted orders were at 50% of the total. Direct orders currently valued at £1.222m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team. We recorded 4,800 responses to email enquiries using our recently installed ticketing system. Our FEEFO customer rating improved to 96%.

26. Delivery dates are now provided on order acknowledgements to provide expected delivery dates for orders, this is a significant benefit to customers and should help to reduce avoidable contact with customer services. A video has been uploaded to the web site aimed at helping customers completing a return through FedEx and we will work with our partner to develop further ‘bitesize’ customer help videos.

27. Stock availability averaged 98.3% in April, stock value was £12.776m with a stock turn of 4.08. Stock levels are being increased ahead of the busy summer peak trading period to ensure high product availability.

28. In April, Facilities Management ensured that all statutory inspections and, repair and maintenance services took place on their relevant due date. Additional batteries have been installed into the server room to enhance the uninterrupted power supply. 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.

29. There was one minor injury reported in April where a night shift colleague suffered slight bruising to her hand after catching this on a storage racking unit. An ice pack was applied and she continued to work until the end of the shift.

30. The IT helpdesk handled 509 enquiries with a 100% satisfaction rating from internal customers. 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. This will embed ESPO’s catalogue onto the school’s enterprise system enabling them to send orders digitally direct into ESPO’s system. ESPO is now formally a “SIMS Technical Integrator”, which enables access to SIMS for testing, as well as technical consultants to assist with configuration.

31. The project to automate transmission of email orders from an analogue input to a digital output is progressing well and is currently in testing. When installed this will reduce the volume of orders that have to be manually keyed. The iSeries backups are now being taken to disk and replicated to an external data centre. This means that we no longer require tapes for backup, and we are in the process

of cancelling our storage contract with Iron Mountain. Our new staff awareness training system, uSecure, is being widely supported by staff. This is an important element of our overall cyber security programme.

32. Following previous updates to Management Committee, the project to extend the Grove Park warehouse is moving forward under the governance of the Project Board. We have now received planning permission from Leicestershire County Council. Our principal contractor Galliford Try has prepared a detailed construction programme which will see site mobilisation beginning on 10th August. During the build programme we plan for ESPO staff to be able to use an adjacent car park which will be leased from British Gas. The overall project cost is forecasted at £5.963m, including £780k contingency, which sits within the parameters previously agreed. We have an expected completion of the project by the end of Q2 2024 and will continue to provide updates to Management Committee throughout the build programme.

33. 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.

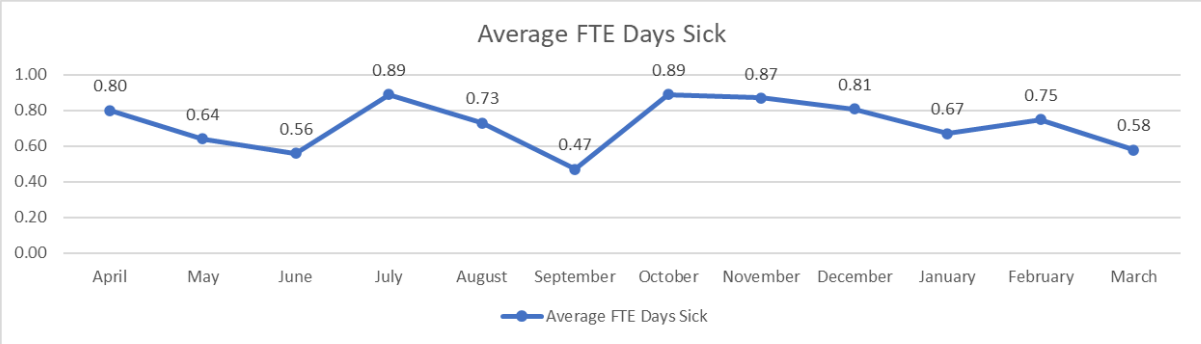
Staffing

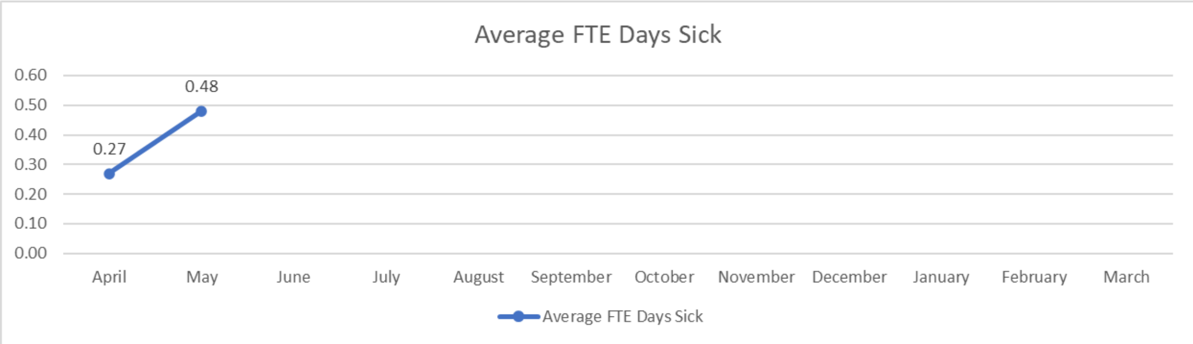
Wellbeing

34. The monthly average FTE sick absence days was 0.48 in May and 2023/24 sick absence levels are currently tracking much lower than in 2022/23. The 12 month rolling average FTE days lost was 7.70 in May and this has been reducing over the last quarter. 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 quarter four 2022/23 were: 1. Stress/depression, mental health, 2. Cough, cold & flu and 3. Musculo-skeletal.

2022/23

2023/24





Recruitment & Retention

35. A new recruitment system, Oracle Recruitment Cloud, was implemented in April which more effectively markets ESPO vacancies and provides a greater applicant experience. There are a number of strands in progress which should help to enhance recruitment and these are:

- Review of external media to advertise vacancies and increase reach
- Resourcing Advisor role to be advertised shortly and the role holder will concentrate on marketing ESPO vacancies, optimising recruitment processes and analysing recruitment and retention data
- Promotional film and recruitment pack being scoped to complement adverts.

Learning & Development

36. Details of corporate mandatory training completion rates are regularly being shared with all employees and the current focus is on increasing completion. The 2023/24 Learning & Development plan is under development with input from managers at all levels. Work is also underway to add all employees to the Learning Hub as previously individuals within Warehouse and Driving Operations have not been included. This will ensure that the learning records for all employees is held centrally and will provide greater visibility and ease of access.

37. A learning programme is being scoped to ensure that Procurement & Commercial employees understand and operate within new procurement

legislation coming in 2024. The Learning Hub can now be accessed directly from the ESPO intranet to encourage participation.

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

There are no resource implications arising directly from this report.

Recommendation

39. Members of Management Committee are asked to note and support the contents of this report.

Officer to Contact

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Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract