MANAGEMENT COMMITTEE – 20 SEPTEMBER 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 June 2023.

Financial Performance – 4 months to July 2023

Summary

Year to July 2023 – Period 4					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	25.9	(0.0)	(0.1%)	5.0	23.6%
Direct Sales	6.3	0.0	0.4%	(1.1)	(15.1%)
Rebate plus fee income	4.7	0.5	12.6%	0.8	19.5%
Total Sales (Exc Gas)	**36.9**	**0.5**	1.4%	**4.6**	14.2%
Stores Margin %	31.7%	1.2%		0.4%	
Directs Margin %	15.4%	0.7%		0.6%	
Total Gross Margin	14.7	1.0	7.1%	2.4	19.1%
Total Expenditure	8.8	0.2	2.8%	(0.7)	(7.5%)
Trading Surplus	**5.9**	**1.2**		**2.4**	
Trading Surplus %	16.0%	3.1%		(0.5%)	

2. After 4 months, **a surplus of £5.9m has been made which is £1.2m better than budget** and **£2.4m higher than last year**.

3. Following the launch of the **new catalogue on 1 April trading has performed well**, despite catalogue selling prices increasing at high levels due to high inflation on the cost of goods. The market remains very competitive but ESPOs offer is well placed and competitive in the market. **Rebate income from frameworks has also started very well and is £0.5m ahead of budget**.

4. **Costs continue to be tightly controlled** with expenditure of £8.8m very slightly better than budget.

5. **For the full year, the budget is a surplus of £6.2m**. Trading in the first quarter of the year has been positive but we remain cautious about volume and whether schools will reign their spending in across the second half of the year given the wider budget challenges they face. Regarding our cost base, the pay award offer from employers is also in line with the budget assumption and whilst not agreed by trade unions this still reduces some uncertainty.

6. Once we have traded through our summer and September peak periods we will have a better view on the year end outturn and shall present back to Management Committee accordingly.

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	25.9		(0.0)	(0.1%)	5.0	23.6%
Direct Sales	6.3		0.0	0.4%	(1.1)	(15.1%)
Rebate income	4.7		0.5	12.6%	0.8	19.5%
Total Sales	**36.9**		**0.5**		**4.6**	
Stores Margin £m and %	8.2	31.7%	0.3	1.2%	1.6	0.4%
Directs Margin £m and %	1.0	15.4%	0.0	0.7%	(0.1)	0.6%
Rebate income	4.7		0.5	12.6%	0.8	19.5%
Gas Margin	0.1	1.4%	(0.0)	(1.2%)	(0.0)	(1.3%)
Catalogue Advertising	0.6		(0.0)		(0.1)	
Misc	0.2		0.1		0.2	
Total Gross Margin	**14.7**	**39.9%**	**1.0**	**2.1%**	**2.4**	**1.6%**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	9.1		4.3	88.8%	3.7	68.1%
Gas Margin	0.1	1.4%	(0.0)	(1.2%)	(0.0)	(1.3%)

7. Total sales to **July 2023 were £36.9m, are £0.5m ahead of budget and £4.6m higher than last year**. Rebate income is performing well with higher collections across Q1 which are likely to benefit the full year.

8. **Stores sales were £25.9m and in line with budget**. Trading has been competitive and we have seen customers making good use of our loyalty based promotions to secure the best value for money. Due to price inflation on 1 April was 19%, and the budget assumed a volume reduction of 8% recognising the funding pressures within schools from inflation, pay, energy etc. Demand/volume is largely in line with this expectation.

9. **Gross profit margin % for Stores at 31.7% is ahead of budget**. Last year margin started to reduce as a result of numerous price rises from suppliers due to inflation and volatility in the global supply and energy markets. This year has been far more stable. We continue to monitor competitor pricing on key lines to ensure ESPO pricing remains competitive, a key element of our pricing strategy is to offer great everyday value to customers.

10. **Directs sales were £6.3m and are in line with budget.** Price inflation applied on 1 April was 15%, and the budget assumed a volume reduction of 20%. This recognised the exceptionally high levels of demand experienced last year and the funding pressures in schools impacting larger purchases, such as classroom furniture and equipment replacement, which could be delayed. Volume is in line with budget and we maintain a pipeline of orders which is comparable to more ‘normal’ years.

11. **Gross profit margin % for Directs at 15.4% is +0.7% ahead of budget**, but this is largely due to the mix of product sold. Margin will return to budget as we progress through the year.

12. **Rebate income of £4.7m is £0.5m ahead of budget and up 20% 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 is +£0.1m ahead of budget**, benefitting from higher interest rates on our cash deposits.

14. **Overall gross profit margin at £14.7m is £1.0m better than budget.**

Expenditure

Expenditure			
£m	**Actual**	**B/(w) than budget**	**B/(w) than LY**
Employee Costs			
Staff	4.9	0.5	(0.7)
Agency/Contract	0.9	(0.4)	(0.0)
Total	**5.7**	**0.1**	**(0.7)**
Overhead Expenses			
Transport	1.1	0.2	(0.0)
Warehouse	0.3	0.0	(0.0)
Procurement	0.0	0.0	0.0
Sales & Marketing	0.3	(0.1)	0.1
Finance	0.7	(0.1)	(0.2)
IT	0.4	0.0	0.1
Directorate	0.2	0.0	(0.0)
Total	**3.1**	**0.1**	**(0.0)**
Total Expenditure	**8.8**	**0.2**	**(0.7)**
As % of Total Sales Excluding Gas	**23.9%**	**1.0%**	**1.2%**

15. **Total expenditure of £8.8m is slightly lower than 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 July this KPI was 23.9% and is 1.0% better than budget** and shows costs are being controlled in relation to sales activity and inflationary growth.

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	192	(103)	27
ETL Sales	311	126	(234)
Total Sales	502	23	(207)
Eduzone Gross Margin	70	(33)	16
Eduzone Gross Margin %	36.7%	1.6%	3.6%
ETL Gross Margin	98	45	17
ETL Gross Margin %	31.7%	2.8%	16.7%
Total Gross Margin	169	12	33
Eduzone Expenditure	(88)	19	(13)
ETL Expenditure	(35)	1	19
Total Expenditure	(124)	20	5
Trading Surplus	45	32	38
Trading Surplus %	9.0%	6.1%	8.0%

18. **Total sales of £502k are in line with budget.**

19. **ETL, our business serving international and private sector customers, has started strongly with sales ahead of budget** and some earlier ordering ahead of the peak summer international period. (Last year ETL benefited from a large one off private sector contract.)

20. **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.

21. **Margin and expenditure is largely in line with budget** and costs are being controlled.

22. **Overall a £45k surplus has been generated, this is slightly ahead of budget** and last year.

<u>Full Year Expectation</u>

23. At this early stage in the year our guidance for the full year remains the budget, of a **£6.2m surplus**. One we have traded through our summer peak and schools have returned in September we will have a better view on the year end outturn.

<u>Audit</u>

24. In July 2023 our auditors, the Midlands office of Fortus Audit LLP, merged with TC Group. We are in the process of completing the audit for 2022/23 and expect to submit this to the Finance and Audit Sub-Committee in October 2023 as planned.

ESPO P&L – July 2023

	Year to Date @ July 23					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	25,916		25,933	(0.1%)	20,960	
Direct	6,314		6,291	0.4%	7,438	
Rebate Income	4,666		4,146	12.6%	3,905	
Gas	9,066		4,801	88.8%	5,393	
Catalogue Advertising	576		609	(5.5%)	638	
Other Income	169		25	576.8%	11	
Total Sales	**36,896**		**36,370**		**32,304**	
Cost of Sales						
Stores	17,705		18,025		14,399	
Direct	5,344		5,367		6,343	
Gas	8,941		4,676		5,247	
Total Cost of Sales	**23,050**		**23,392**		**20,742**	
Margin						
Stores	8,210	31.7%	7,908	30.5%	6,561	31.3%
Direct	970	15.4%	924	14.7%	1,095	14.7%
Rebate Income	4,666		4,146		3,905	
Gas	125	1.4%	125	2.6%	146	2.7%
Catalogue Advertising	576		609		638	
Other Income	169		25		11	
Total Margin	**14,716**	39.9%	**13,738**	37.8%	**12,356**	38.2%
Warehouse and Transport						
Employee Costs						
Staff	2,104		2,383		1,667	
Agency/Contract	822		481		783	
Total	**2,926**		**2,865**		**2,450**	
Overhead Expenses						
Transport	1,105		1,278		1,083	
Warehouse	296		299		274	
Total Warehouse and Transpor	**4,328**	16.7%	**4,441**	17.1%	**3,807**	18.2%
Head Office						
Employee Costs						
Staff	2,751		2,993		2,525	
Agency/Contract	47		11		59	
Total	**2,799**		**3,004**		**2,584**	
Overhead Expenses						
Procurement	47		66		54	
Sales & Marketing	340		285		466	
Finance	708		599		551	
IT	395		418		463	
Directorate	186		227		159	
Total	**1,676**		**1,595**		**1,693**	
Total Head Office	**4,475**		**4,599**		**4,277**	
Total Expenditure	**8,802**	**23.9%**	**9,040**	**24.9%**	**8,084**	**25.0%**
Trading Surplus	**5,914**	**16.0%**	**4,697**	**12.9%**	**4,272**	**13.2%**

ESPO Operational Progress

25. In the busy July period, **ESPO's distribution centre picked and dispatched 217,377 order lines, valued at £7.907m and the transport fleet with couriers made 20,209 deliveries**. Warehouse picking was performed at a rate of 29 lines per hour against our target of 32 and the error rate detected by QA was 6% against the target of 3%. The intake of agency staff to manage peak demand impacted efficiency. In the long term we are planning to re-balance the ratio of permanent to agency staff to address these issues. The average order value for stock orders in July was £347.64 compared to the budget of £311.83. Operational and IT costs year to July were £4.910m against a budget of £5.044m. Stores sales to July were 0.1% below budget. Stock availability averaged 97% in July, stock value was £11.493m with a stock turn of 4.64.

26. **The Customer Services team handled 6,643 calls across the five customer service channels**. Average wait times across all teams was 1.36 minutes. The team processed 29,910 customer orders valued at £9.207m, which included the annual summer holiday promotion. Call performance was impacted by diverting staff to order processing following a technical issue with the automated ordering system which has now been resolved. Online and electronic converted orders were at 47% of the total. Direct orders currently valued at £2.724m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team. We recorded 7,657 responses to email enquiries using our recently installed ticketing system. Our FEEFO customer rating was 86%.

27. **Facilities management In July 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.

28. **There was one minor injury reported in July** where a warehouse operative bumped their head on the bike shelter. There was an unplanned fire evacuation on 10th July which was executed successfully. This was traced to a fault at a call point in the warehouse. These are being replaced throughout the building to avoid further issues. On 12th July we conducted random drug and alcohol testing using the specialist service provider. A total of 11 staff were tested and subsequent results showed no failures. An audit plan from Leicestershire County Council in respect of site safety during the warehouse extension build programme was reviewed.

29. **The IT helpdesk handled 563 enquiries with a 100% satisfaction rating** from internal customers. The project to replace the automated order processing system with a new service provider was initiated on 21st July. This will provide a stable and fully supported process for automatically inputting orders onto the ERP system.

30. **The project to integrate school's ordering system SIMS/FMS to ESPO's system is progressing well**. This will embed ESPO's catalogue onto the

school's enterprise system enabling them to send orders digitally direct into ESPO's system. We are planning to upgrade our IBMi hardware using a specialist hosting provider. The IT team have met with Agile Automations to discuss the means to enable customers to download invoices through the web site. Our new staff awareness training system, uSecure, is being widely supported by staff. This is an important element of our overall cyber security programme.

The Extension of Grove Park Site

31. Following previous updates to Management Committee, the project to extend the Grove Park warehouse is moving forward under the governance of the Project Board, with support from Leicestershire County Council Strategic Property Services team. At the time of authorship, we are awaiting submission of the final cost and time plan from our principal contractor which we go through the project board to formally agree the contract and we anticipate the start of work on site within the next few weeks. Any required updates to this will be provided verbally at the Committee briefings.

32. As previously identified in the risk register, it is anticipated that there will be increases in construction materials cost as firm costs are provided by our contractors supply chain. Although the total cost is expected to remain within the cost envelope previously agreed and still provide for contingency during the build phase. We realistically have an expected completion of the project in September 2024 and will continue to provide updates to Management Committee throughout the project.

33. As the warehouse extension construction phase develops ESPO Health and Safety 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 0.71 in July (8.52 days PA eqv) which was an increase on the previous three months. However, 2023/24 sickness absence levels are currently tracking much lower than in 2022/23.

35. The three main causes of sick absence during quarter one 2023/24 were 1. Chest and Respiratory, 2. Neurological and 3. Musculo-skeletal. Monthly absence case conferences are being held with Heads of Service whom have long term cases in their areas. From 1 September, managers will manage sick absence directly on Oracle Fusion other than in Operations (Warehouse and Drivers) whom will continue to use the existing process.

People Plan

36. The 2023/24 people plan for ESPO has recently been agreed which sets out actions under 5 pillars – Recruitment and Resourcing, Talent, Development and Performance, Organisation and Culture, and Wellbeing. People Services at Leicestershire County Council and leads in ESPO will partner on the delivery plan that underpins this to recruit, develop and retain a workforce that is fit for the future:

ESPO People Plan

ESPO Risk and Governance Update

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

37. 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

38. None arising directly from this report.

Recommendation

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

Appendices

Appendix 1: Balanced Scorecard
Appendix 2: Corporate Risk Register extract

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