

## MANAGEMENT COMMITTEE – 15 NOVEMBER 2023

### PROGRESS UPDATE

### REPORT OF THE DIRECTOR

#### Purpose of the Briefing Note

1. The purpose of this update is to inform the Management Committee of the actions and progress made since the last update provided to Members in September 2023.

#### Finance update

#### Summary

Year to September 2023 – Period 6					
£m	Actual	B/(w) than Budget		B/(w) than LY	
Stores Sales	35.3	(0.1)	(0.2%)	4.3	13.7%
Direct Sales	10.6	(0.1)	(0.6%)	(1.7)	(13.9%)
Rebate plus fee income	6.5	0.9	16.4%	1.1	19.5%
<b>Total Sales (Exc Gas)</b>	<b>52.5</b>	<b>0.8</b>	<b>1.5%</b>	<b>3.6</b>	<b>7.4%</b>
Stores Margin %	31.4%	1.1%		2.4%	
Directs Margin %	15.6%	0.9%		0.6%	
Total Gross Margin	20.3	1.6	8.3%	3.1	17.7%
Total Expenditure	13.1	0.3	2.1%	(1.1)	(7.4%)
<b>Trading Surplus</b>	<b>7.2</b>	<b>1.8</b>		<b>2.0</b>	
Trading Surplus %	13.7%	3.3%		3.1%	

2. After 6 months, a surplus of £7.2m has been made which is £1.8m better than budget and £2.0m higher than last year.
3. Rebate income from frameworks is performing very well at +£0.9m ahead of budget and this is a part of ESPO's business which benefits from inflation. ESPO's prudent approach to budgeting framework rebate recognises the significant impact under/over delivery has on the ESPO bottom line (it has a 100% gross profit margin) and longer-term nature of the contracting income that drives it. The budget assumed slightly higher growth in the second half of the year and at this point it is not expected that the budget will be exceeded in the second half of the year to the same extent as in the first half of the year.
4. In the Catalogue business the market remains very competitive but ESPOs offer remains strong. ESPO continues to gain market share through the combination of great availability, competitive pricing, and a reliable service. Despite increasing prices in the 1 April catalogue due to supplier inflation, catalogue sales have been in line with budget. ESPOs assumptions of a small volume reduction from the wider pressures on school finances have proved both prudent and

robust. The margin in the first half of the year has benefitted from warehouse stock bought at last year's lower prices, and some pressure on the margin is expected in the second half of the year.

5. Costs continue to be tightly controlled with expenditure of £13.1m better than budget by £0.3m.
6. For the full year, the budget is a surplus of £6.2m, and at September ESPO is clearly ahead of this. Having now passed the peak trading period, the second half of the year is quieter – December is always an especially quiet month and lower trading is also expected in March due to the earlier timing of Easter. ESPO remains cautious about demand in the second half of the year, especially Q4, with feedback from schools and BESA indicating weak confidence remains and a likelihood of school spend being 'reigned in' now their core annual purchases have been made.

## Sales and Margin

Sales and Margin						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Stores Sales	35.3		(0.1)	(0.2%)	4.3	13.7%
Direct Sales	10.6		(0.1)	(0.6%)	(1.7)	(13.9%)
Rebate income	6.5		0.9	16.4%	1.1	19.5%
<b>Total Sales</b>	<b>52.5</b>		<b>0.8</b>		<b>3.6</b>	
Stores Margin £m and %	11.088	31.4%	0.4	1.1%	2.1	2.4%
Directs Margin £m and %	1.659	15.6%	0.1	0.9%	(0.2)	0.6%
Rebate income	6.5		0.9	16.4%	1.1	19.5%
Gas Margin	0.2	1.5%	(0.0)	(1.5%)	(0.0)	(1.6%)
Catalogue Advertising	0.6		(0.1)		(0.1)	
Misc	0.3		0.3		0.3	
<b>Total Gross Margin</b>	<b>20.3</b>	<b>38.7%</b>	<b>1.6</b>	<b>2.4%</b>	<b>3.1</b>	<b>3.4%</b>

Gas						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Gas Sales	11.7		5.4	85.3%	4.4	60.7%
<b>Gas Margin</b>	<b>0.2</b>	<b>1.5%</b>	<b>(0.0)</b>	<b>(1.5%)</b>	<b>(0.0)</b>	<b>(1.6%)</b>

7. Total sales to September 2023 were £52.5m, and are £0.8m ahead of budget and £3.6m higher than last year. Rebate income is performing well with higher collections year to date which are likely to benefit the full year.
8. **Stores sales were £35.3m and in line with budget.** Trading has been competitive and ESPO has seen customers making use of its loyalty-based promotions to secure the best value for money. Price inflation applied 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 but it was necessary to run an additional promotion in May 2023 to deliver this.
9. **Gross profit margin % for Stores at 31.4% is ahead of budget.** Last year the margin started to reduce as a result of numerous price rises from suppliers linked to inflation and volatility in the global supply and energy markets. This year has

been far more stable. The margin % also benefitted at the start of this year from warehouse stock having been bought at last year's cheaper prices, especially exercise books and the margin is expected to come under more pressure in the second half of the year.

10. **Directs sales were £10.6m and are £0.1m lower than 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. ESPO is seeing lower demand than budgeted as schools prioritise their spend but has benefitted from several large refurbishment projects with schools which have supplemented income.
11. **Gross profit margin % for Directs at 15.6% is +0.9% ahead of budget,** but this is largely due to the mix of product sold.
12. **Rebate income of £6.5m is £0.9m ahead of budget** and up 19% on last year. It continues to perform well, benefitting from inflation and with a good pipeline in place of contracts secured for the future.
13. **Other income is +£0.3m ahead of budget,** benefitting from higher interest rates on ESPO's cash deposits.
14. **Overall gross profit margin at £20.3m is £1.3m better than budget.**

## Expenditure

<b>Expenditure</b>			
<b>£m</b>	<b>Actual</b>	<b>B/(w) than budget</b>	<b>B/(w) than LY</b>
<b>Employee Costs</b>			
Staff	7.3	0.7	(1.0)
Agency/Contract	1.2	(0.6)	0.1
<b>Total</b>	<b>8.6</b>	<b>0.2</b>	<b>(0.9)</b>
<b>Overhead Expenses</b>			
Transport	1.6	0.2	(0.0)
Warehouse	0.4	(0.0)	(0.0)
Procurement	0.1	(0.0)	(0.0)
Sales & Marketing	0.5	(0.0)	0.1
Finance	1.0	(0.1)	(0.2)
IT	0.6	0.0	0.0
Directorate	0.3	0.0	(0.1)
<b>Total</b>	<b>4.6</b>	<b>0.1</b>	<b>(0.2)</b>
<b>Total Expenditure</b>			
	<b>13.1</b>	<b>0.3</b>	<b>(1.1)</b>
<b>As % of Total Sales Excluding Gas</b>	<b>25.0%</b>	<b>0.9%</b>	<b>(0.3%)</b>

15. **Total expenditure of £13.1m is £0.3m lower than budget.** ESPO retains a continued focus on strong cost control across all areas.
16. **Expenditure as a % of sales** is one KPI which allows ESPO to measure cost control in relation to sales. This KPI was 25.0% and is 0.9% better than budget and shows costs are being controlled in relation to sales activity and inflationary growth. Looking ahead, ESPO can foresee a need to increase our cost base and its % of sales. Sales are significantly ahead of the medium term financial strategy and in order to maintain the planned growth rates assumed in the MTF5 ESPO anticipates needing to accelerate investment that was also planned in the MTF5.

### 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	317	(188)	63
ETL Sales	405	71	(218)
<b>Total Sales</b>	<b>722</b>	<b>(116)</b>	<b>(155)</b>
Eduzone Gross Margin	117	(60)	30
Eduzone Gross Margin %	37.0%	1.9%	2.9%
ETL Gross Margin	127	32	27
ETL Gross Margin %	31.3%	2.8%	15.2%
<b>Total Gross Margin</b>	<b>244</b>	<b>(28)</b>	<b>57</b>
Eduzone Expenditure	(144)	26	(49)
ETL Expenditure	(58)	(5)	8
<b>Total Expenditure</b>	<b>(203)</b>	<b>21</b>	<b>(41)</b>
<b>Trading Surplus</b>	<b>41</b>	<b>(7)</b>	<b>16</b>
Trading Surplus %	5.7%	(0.0%)	2.9%

18. Total sales of £722k are slightly behind budget.
19. ETL, the 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, the business focusing on early years in the UK, is 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 £41k surplus has been generated, this is in line with budget and slightly ahead of last year.

### Full Year Expectation

23. For the full year, the budget is a surplus of £6.2m, and at September ESPO is clearly ahead of this. Looking ahead there are several risks and opportunities:



- a. BESA and school feedback indicates weak consumer demand being expected across the rest of the year and ESPO can foresee an element of risk in the Catalogue budget, especially in Q4.



- b. Stores margin has been ahead of budget and at the start of the year benefitted significantly from the stock in the warehouse that was purchased last year at cheaper prices. ESPO does not expect to benefit from this in the second half of the year now that much of this has sold.



- c. ESPO remains cautious about Directs sales and expect sales to remain behind budget for the rest of the year as schools continue to tighten spend and delay spending on 'big ticket' furniture items.



- d. Rebate income has been tracking well all year, benefitting from inflation and continued customer growth. The budget was prudent and ESPO is optimistic about performance in the second half, but it is important to know that the budget was slightly weighted to the second half of the year. As a result, performance in the second half is not expected to exceed the budget as much as it has in the first half of the year.



- e. December usually makes a loss given the Christmas closure (for ESPO and schools) and it being a slow month for rebate collection. ESPO also expects March 2024 to be a slow month as a result of the Easter vacation period, with many schools breaking up 1 week earlier this year. This is, however, all budgeted.



- f. The pay award offer from employers was agreed on 1 November and remains in line with the budget assumption and the offer made.



- g. With commencement of the warehouse building works in the second half of the year, ESPO anticipates being able to undertake some additional repairs and consequential improvements to the site. These will generally be earlier than planned in the MTFs and whereas a result of already having contractors on site it becomes cost effective and convenient to do so. Depending on timing funding may be allocated to the renewals provision to allow for this.

24. Considering all of this, **the latest guidance for the full year is a trading surplus of £7.3m - £7.7m.** As ESPO progresses further into the year there remains an opportunity to increase further as more confidence is gained over customer demand, and rebate income, providing no material risks emerge.

## ESPO P&amp;L – September 2023

	Year to Date @ September 23					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
<b>Sales</b>						
Stores	35,344		35,411	(0.2%)	31,088	
Direct	10,625		10,684	(0.6%)	12,336	
Rebate Income	6,517		5,601	16.4%	5,455	
Gas	11,656		6,289	85.3%	7,254	
Catalogue Advertising	583		656	(11.1%)	672	
Other Income	290		38	672.2%	36	
<b>Total Sales</b>	<b>52,486</b>		<b>51,697</b>		<b>48,879</b>	
<b>Cost of Sales</b>						
Stores	24,256		24,707		22,077	
Direct	8,966		9,115		10,481	
Gas	11,476		6,098		7,027	
<b>Total Cost of Sales</b>	<b>33,222</b>		<b>33,822</b>		<b>32,558</b>	
<b>Margin</b>						
Stores	11,088	31.4%	10,704	30.2%	9,010	29.0%
Direct	1,659	15.6%	1,569	14.7%	1,855	15.0%
Rebate Income	6,517		5,601		5,455	
Gas	180	1.5%	192	3.0%	226	3.1%
Catalogue Advertising	583		656		672	
Other Income	290		38		36	
<b>Total Margin</b>	<b>20,317</b>	<b>38.7%</b>	<b>18,760</b>	<b>36.3%</b>	<b>17,255</b>	<b>35.3%</b>
<b>Warehouse and Transport</b>						
<b>Employee Costs</b>						
Staff	3,152		3,575		2,526	
Agency/Contract	1,170		663		1,251	
<b>Total</b>	<b>4,322</b>		<b>4,238</b>		<b>3,777</b>	
<b>Overhead Expenses</b>						
Transport	1,610		1,828		1,582	
Warehouse	447		443		425	
<b>Total Warehouse and Transport</b>	<b>6,379</b>	<b>18.0%</b>	<b>6,509</b>	<b>18.4%</b>	<b>5,783</b>	<b>18.6%</b>
<b>Head Office</b>						
<b>Employee Costs</b>						
Staff	4,186		4,494		3,837	
Agency/Contract	62		17		91	
<b>Total</b>	<b>4,248</b>		<b>4,511</b>		<b>3,927</b>	
<b>Overhead Expenses</b>						
Procurement	100		96		83	
Sales & Marketing	453		416		601	
Finance	1,000		897		814	
IT	618		627		630	
Directorate	338		353		243	
<b>Total</b>	<b>2,509</b>		<b>2,390</b>		<b>2,371</b>	
<b>Total Head Office</b>	<b>6,757</b>		<b>6,901</b>		<b>6,298</b>	
<b>Total Expenditure</b>	<b>13,136</b>	<b>25.0%</b>	<b>13,410</b>	<b>25.9%</b>	<b>12,082</b>	<b>24.7%</b>
<b>Trading Surplus</b>	<b>7,181</b>	<b>13.7%</b>	<b>5,350</b>	<b>10.3%</b>	<b>5,173</b>	<b>10.6%</b>

## ETL Combined P&L – September 2023

ETL & Eduzone Results	Sep-23 YTD					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
<b>Sales</b>						
Sales	722.4		838.6		877.8	
<b>Total Sales</b>	<b>722.4</b>		<b>838.6</b>		<b>877.8</b>	
<b>Cost of Sales</b>						
Cost of Sales	478.4		566.6		690.9	
<b>Total Cost of Sales</b>	<b>478.4</b>		<b>566.6</b>		<b>690.9</b>	
<b>Margin</b>						
Margin	244.0		272.0		186.9	
<b>Total Margin</b>	<b>244.0</b>	33.8%	<b>272.0</b>	32.4%	<b>186.9</b>	21.3%
<b>Expenditure</b>						
Employee Costs	98.5		98.5		53.3	
Commission	0.0		0.0		0.8	
Carrier	50.9		53.5		22.2	
Marketing Expenses	33.1		44.2		67.0	
Consultancy	1.3		1.3		2.0	
Support / Legal Prof	0.0		0.0		2.5	
Accountancy	0.4		3.6		0.0	
Insurance	11.8		11.8		9.5	
Office Machine Maint / Software	3.0		2.0		1.5	
Merchant Services	1.4		2.6		0.9	
Other Expenses	2.2		6.1		2.1	
<b>Total Expenditure</b>	<b>202.7</b>	28.1%	<b>223.6</b>	26.7%	<b>161.8</b>	18.4%
<b>Trading Surplus /(Deficit)</b>	<b>41.4</b>	5.7%	<b>48.4</b>	5.8%	<b>25.1</b>	2.9%

### ESPO Operational Progress

25. In September ESPO's distribution centre picked and dispatched 181,667 order lines, valued at £5.980m and the transport fleet with couriers made 25,648 deliveries. Warehouse picking was performed at a rate of 43 lines per hour against a target of 32 benefitting from larger promotional orders, and the error rate detected by QA was 1% against the budget of 3%. The average order value for stock orders in September was £267.14 compared to the budget of £233.80. Operational and IT costs year to September were £7.298m against a budget of £7.413m. Stores sales to September were in-line with budget. Stock availability

averaged 98% in September, stock value was £11.402m with a stock turn of 4.91.

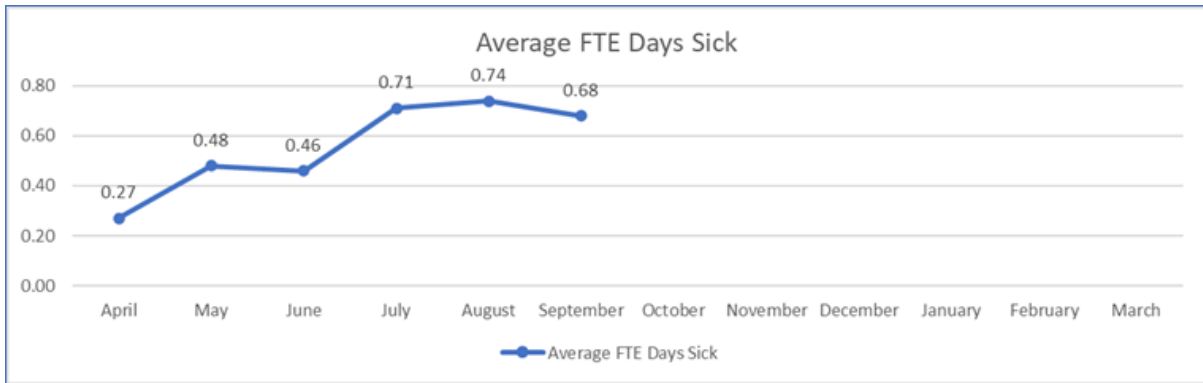
26. The Customer Services team handled 7,583 calls across the four customer service channels in the busy back-to school period. Average wait times across all teams was 47 seconds. The team processed 33,633 customer orders valued at £5.7m. Online and electronic converted orders were at 85.6% of the total, aided by the new automated order processing system. The system transcribes order data onto the enterprise resource planning system (ERP) requiring minimal staff input, thus removing a bottleneck during peak trading. Direct orders currently valued at £1.881m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team and customers are kept informed of the estimated delivery date. ESPO recorded 7,018 responses to email enquiries using its ticketing system. The FEEFO customer rating was 76% reflecting some teething problems with the new ordering processing system which have now been resolved. ESPO has agreed an initiative to encourage customers to provide a FEEFO rating which should help to provide a more balanced overall insight into its performance rating.
27. Facilities management in September ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. The call points for the fire system were replaced due to age. The fall-protection equipment on the roof has been inspected and extended to cover the entire roof area. The facilities management (FM) team has been active in supporting the warehouse extension project; liaising with potential forklift truck (FLT) and racking suppliers and in considering the consequential improvement plan.
28. There was one minor injury reported in September. A warehouse operative cut his hand whilst using a safety knife. A Safety Alert was subsequently issued to warehouse staff reminding of importance of following the already defined safe system of work. Improvements have been made to the line marking within the warehouse with special emphasis on crossing points between mechanical handling equipment and pedestrian traffic to ensure staff vigilance. 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 525 enquiries with a 100% satisfaction rating from internal customers. The annual disaster recovery testing took place at an off-site location hosted by our service provider.
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. The IT team have met with Agile Automations to discuss the means to enable customers to download invoices through the web site. ESPO's new staff awareness training system, uSecure, is being widely supported by staff. This is an important element of the overall cyber security programme. A follow-up audit has highlighted that significant progress continues to be made to implement the outstanding recommendations that were made within the initial Cyber Security Audit. Furthermore, ESPO's IT team continue to robustly monitor



progress against these actions by including these within their Cyber Security Risk Register.

**Staffing**

- 31. The monthly average FTE sick absence days was 0.68 in September which was a reduction on the previous two months (chart below). Sick absence levels in 2023/24 continue to track much lower than in 2022/23 and the rolling 12 months average of FTE days absent was 7.97 in September (table below).
- 32. The three main causes of sick absence during quarter two 2023/24 were 1. Musculo-Skeletal, 2. Stress/Depression, Mental Health and 3. Cough, Cold & Flu. Monthly absence case conferences are being held with Heads of Service who have long term cases in their areas. Details have been issued around the flu vaccination programme, approach to good hygiene in the workplace and working from home when unwell if possible.

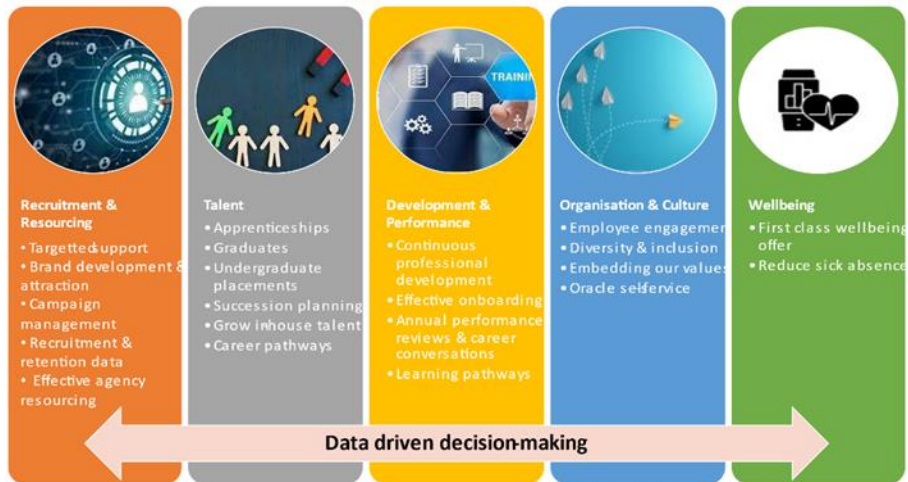


Department	Apr-23			May-23			Jun-23			Jul-23			Aug-23			Sep-23	
	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick	FTE Days Lost	FTE	FTE days sick
ESPO	321.14	7.79	2448.44	318.14	7.70	2345.11	312.87	7.50	2422.42	311.81	7.77	2426.25	309.81	7.83	2471.51	310.14	7.97

**People Plan**

- 33. Progress has been made on the 2023/24 people plan which sets out actions under 5 pillars – Recruitment & Resourcing, Talent, Development & Performance, Organisation and Culture and Wellbeing. Job adverts now contain links to promotional material and are routinely placed on Indeed and LinkedIn for greater exposure. A new apprenticeship is being scoped in the Business Development & Growth section and there have been improvements in both mandatory training and appraisal completions. Plans are being finalised to run a staff survey in November and offer health assessment slots to all staff before Christmas:

## ESPO People Plan



## ESPO Risk and Governance Update

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

34. 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 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