ESPO MANAGEMENT COMMITTEE – 20 MARCH 2024

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Report

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

Background

Financial performance update – 10 months to January 2024

Summary

Year to January 2024 – Period 10					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	48.8	(1.3)	(2.5%)	4.4	10.0%
Direct Sales	16.4	0.0	0.2%	(2.2)	(11.8%)
Rebate plus fee income	10.6	0.8	7.8%	1.3	14.4%
Total Sales (Exc Gas)	**75.7**	**(0.5)**	(0.6%)	**3.6**	4.9%
Stores Margin %	31.1%	1.5%		2.8%	
Directs Margin %	15.6%	1.0%		0.4%	
Total Gross Margin	29.8	1.7	6.0%	3.9	15.1%
Total Expenditure	21.5	0.3	1.6%	(1.5)	(6.6%)
Trading Surplus	**8.3**	**2.0**		**2.4**	
Trading Surplus %	10.9%	2.7%		2.8%	

2. After 10 months, **a surplus of £8.3m has been made which is £2.0m better than budget** and £2.4m higher than last year.

3. Rebate income from frameworks is performing very well at +£0.8m 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). The budget assumed slightly higher growth in the second half of the year and whilst a small amount of the gains seen in the first half were due to timing, it is expected to be largely in line with budget in the final quarter.

4. In ESPO's catalogue business the market remains very competitive but ESPO's offer remains strong. Gains in market share continue through the combination of

availability, pricing, and service offer. Despite increasing prices in the last 1 April catalogue due to supplier inflation, catalogue sales in the first half of the year were in line with budget, before softening after Christmas with many schools limiting their spending towards the end of the financial year. This recognises the tough financial position they are in from high levels of inflation on pay, energy, and goods/services. ESPO's margin in the first half of the year has benefitted from warehouse stock bought at last year's lower prices, and a more settled supply chain.

5. Costs continue to be tightly controlled with expenditure of £21.5m better than budget by £0.3m.

6. For the full year, the budget is a surplus of £6.2m, and at January 2024 ESPO remains ahead of this. Based on recent trading ESPO remains cautious about demand in the last months of the year, with feedback from schools and British Educational Suppliers Association (BESA) indicating weak confidence remains for Q4 and a likelihood of school spend being 'reigned in' now their core annual purchases have been made. We also note that Schools confidence for 2024/25 is improving.

7. **Our latest guidance for the full year is a trading surplus of £7.8m - £8.1m.**

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	48.8		(1.3)	(2.5%)	4.4	10.0%
Direct Sales	16.4		0.0	0.2%	(2.2)	(11.8%)
Rebate income	10.6		0.8	7.8%	1.3	14.4%
Total Sales	**75.7**		**(0.5)**		**3.6**	
Stores Margin £m and %	15.2	31.1%	0.4	1.5%	2.6	2.8%
Directs Margin £m and %	2.6	15.6%	0.2	1.0%	(0.3)	0.4%
Rebate income	10.6		0.8	7.8%	1.3	14.4%
Gas Margin	0.3	1.1%	(0.0)	(1.6%)	(0.1)	(1.7%)
Catalogue Advertising	0.6		(0.1)		(0.1)	
Misc	0.6		0.5		0.4	
Total Gross Margin	**29.8**	**39.4%**	**1.7**	**2.4%**	**3.9**	**3.5%**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	26.2		14.6	125.8%	12.3	88.5%
Gas Margin	0.3	1.1%	(0.0)	(1.6%)	(0.1)	(1.7%)

8. **Total sales to January 2024 were £75.7m and are £0.5m behind budget and £3.6m higher than last year.**

9. **Stores sales were £48.8m and are £1.3m behind budget,** with sales starting strongly this year before slowing in more recent months - reflecting both the challenging trading environment and limited funding left within school budgets. Price

inflation applied on 1 April 2023 was on average 19%, and the budget assumed a volume reduction of 8% recognising the funding pressures within schools from inflation, pay, energy etc. Demand/volume was largely in line with this in the first half of the year, with trading slowing in Quarter 4. Throughout the year ESPO has seen customers making good use of its loyalty-based promotions to secure the best value for money and ESPO ran an additional promotion in May 2023 to stimulate demand which was successful.

10. **Gross profit margin percent for Stores at 31.1% is ahead of budget**. Last year 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. As is normal for similar businesses, a stock provision is maintained to cover the risk that discounts may need to be offered to clear any old/slow moving stock, with a cost of £0.3m being recognised which is less than <1% of stores sales.

11. **Directs sales were £16.4m 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.

12. **Gross profit margin % for Directs at 15.6% is +1.0% ahead of budget**, but this is largely due to the mix of product sold.

13. **Rebate income of £10.6m is £0.8m ahead of budget** and up 14% on last year. It continues to perform well, benefitting from inflation and the digital pathway created by the new website.

14. Other income is +£0.5m ahead of budget, benefitting from higher interest rates on ESPO's cash deposits.

15. **Overall gross profit margin at £29.8m is £1.7m better than budget.**

Expenditure

Expenditure			
£m	**Actual**	**B/(w) than budget**	**B/(w) than LY**
Employee Costs			
Staff	12.2	1.2	(1.2)
Agency/Contract	1.8	(0.8)	0.3
Total	**14.0**	**0.4**	**(1.0)**
Overhead Expenses			
Transport	2.7	0.0	(0.2)
Warehouse	0.7	(0.0)	(0.0)
Procurement	0.2	0.2	(0.0)
Sales & Marketing	0.7	(0.0)	0.2
Finance	1.7	(0.2)	(0.3)
IT	1.1	(0.0)	(0.0)
Directorate	0.6	(0.0)	(0.2)
Total	**7.5**	**(0.0)**	**(0.5)**
Total Expenditure	**21.5**	**0.3**	**(1.5)**
As % of Total Sales Excluding Gas	**28.5%**	**0.3%**	**(0.7%)**

16. **Total expenditure of £21.5m is £0.3m lower than budget.** A continued focus is retained on strong cost control across all areas.

17. **Expenditure as a % of sales** is one key performance indicator (KPI) which allows cost control in relation to sales to be measured. This KPI was 28.5% and is 0.3% better than budget and shows costs are being controlled in relation to sales activity and inflationary growth.

18. The 2023/24 pay award was settled in December 2023 and this was in line with ESPO's budget assumption.

ESPO Trading Limited/Eduzone

19. ESPO Trading Limited (ETL) and Eduzone are ESPO's limited companies which service the private sector.

ETL and Eduzone			
£k	**Actual**	**B/(w) than Budget**	**B/(w) than LY**
Eduzone Sales	508	(318)	20
ETL Sales	555	41	(278)
Total Sales	1,063	(277)	(258)
Eduzone Gross Margin	192	(98)	23
Eduzone Gross Margin %	37.8%	2.7%	3.3%
ETL Gross Margin	179	20	41
ETL Gross Margin %	32.2%	1.4%	15.7%
Total Gross Margin	371	(77)	65
Eduzone Expenditure	(189)	83	(29)
ETL Expenditure	(109)	(13)	(12)
Total Expenditure	(298)	70	(40)
Trading Surplus	73	(7)	24
Trading Surplus %	6.9%	0.9%	3.2%

20. **Total sales of £1,063k are behind an ambitious budget.**

21. ETL, ESPO's business serving international and private sector customers, is performing well and has benefitted from some earlier ordering ahead of the peak summer international sales period. (Note – last year ETL benefited from a large one-off private sector contract).

22. Eduzone, ESPO's 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. Sales growth from a planned online campaign was expected but early testing wasn't cost effective and so the campaign was stopped.

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

24. **Overall a £73k surplus has been generated which is broadly in line with budget.**

Full Year Expectation

25. For the full year, the budget is a surplus of £6.2m, and at January performance remains ahead of this. Looking ahead, there are several risks and opportunities:

   i. BESA and school feedback indicates weak consumer demand being expected across the rest of the year and an element of risk can be foreseen in the catalogue budget, especially in Quarter 4. This was seen in January where catalogue sales were -15% vs budget.

ii. Rebate income has been tracking well all year, benefitting from inflation and continued customer growth. The budget was prudent and officers are optimistic about performance in the second half, but it is important to know that the budget was weighted to the second half of the year. As a result, it is not expected that performance in the second half of the year will exceed budget.

iii. March 2024 is expected to be a slow month as a result of the Easter vacation period, with many schools breaking up one week earlier this year. ESPO also incurs the costs for its catalogues in March. As a result ESPO expects to incur a net loss in March. This is however, all budgeted.

iv. The warehouse building works have started and we anticipate being able to undertake or approve some additional repairs and consequential improvements to the site. These will generally be earlier than planned in the medium term financial strategy (MTFS) and where as 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 and this could be up to £0.3m. Such items may include roofing repairs, car park resurfacing, and also new external signage for the ESPO warehouse following a pre-Covid update to the logo.

26. Considering all of this, **the latest guidance for the full year is a trading surplus of £7.8m - £8.1m.**

ESPO Profit and Loss

Financial Performance	Year to Date @ January 2024					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	48,760		50,014	(2.5%)	44,338	
Direct	16,354		16,318	0.2%	18,544	
Rebate Income	10,572		9,811	7.8%	9,241	
Total Sales	**75,686**		**76,143**		**72,123**	
Cost of Sales						
Stores	33,574		35,192		31,755	
Direct	13,797		13,921		15,711	
Total Cost of Sales	**47,370**		**49,113**		**47,466**	
Margin						
Stores	15,186	31.1%	14,823	29.6%	12,583	28.4%
Direct	2,557	15.6%	2,397	14.7%	2,833	15.3%
Rebate Income	10,572		9,811		9,241	
Gas	300	1.1%	317	2.7%	391	2.8%
Catalogue Advertising	606		727		692	
Other Income	596		63		165	
Total Margin	**29,818**	39.4%	**28,136**	37.0%	**25,906**	35.9%
Warehouse and Transport						
Employee Costs						
Staff	5,148		5,921		4,466	
Agency/Contract	1,652		939		1,894	
Total	**6,800**		**6,860**		**6,360**	
Overhead Expenses						
Transport	2,680		2,688		2,488	
Warehouse	721		698		690	
Total Warehouse and Transport	**10,201**	20.9%	**10,246**	20.5%	**9,538**	21.5%
Head Office						
Employee Costs						
Staff	7,085		7,503		6,527	
Agency/Contract	123		28		161	
Total	**7,209**		**7,531**		**6,688**	
Overhead Expenses						
Procurement	163		359		140	
Sales & Marketing	652		626		865	
Finance	1,660		1,495		1,379	
IT	1,051		1,045		1,022	
Directorate	599		581		392	
Total	**4,125**		**4,106**		**3,798**	
Total Head Office	**11,334**		**11,637**		**10,486**	
Total Expenditure	**21,534**	**28.5%**	**21,883**	**28.7%**	**20,025**	**27.8%**
Trading Surplus	**8,283**	**10.9%**	**6,253**	**8.2%**	**5,881**	**8.2%**

ETL/Eduzone Profit and Loss

ETL & Eduzone Results	Jan-24 YTD					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Sales	1,062.9		1,339.7		1,321.0	
Total Sales	**1,062.9**		**1,339.7**		**1,321.0**	
Cost of Sales						
Cost of Sales	692.1		891.6		1,014.9	
Total Cost of Sales	**692.1**		**891.6**		**1,014.9**	
Margin						
Margin	370.8		448.0		306.1	
Total Margin	**370.8**	34.9%	**448.0**	33.4%	**306.1**	23.2%
Expenditure						
Employee Costs	125.1		164.2		99.8	
Commission	0.0		0.0		0.8	
Carrier	77.9		86.7		46.4	
Marketing Expenses	69.7		73.9		78.1	
Consultancy	1.9		1.9		2.6	
Support / Legal Prof	0.0		0.0		2.5	
Accountancy	0.4		1.8		4.4	
Insurance	18.9		21.3		17.4	
Office Machine Maint / Software	3.8		3.3		1.7	
Merchant Services	3.8		4.2		1.3	
Other Expenses	(3.8)		10.3		2.2	
Total Expenditure	**297.7**	28.0%	**367.6**	27.4%	**257.3**	19.5%
Trading Surplus /(Deficit)	**73.1**	6.9%	**80.4**	6.0%	**48.8**	3.7%

Operational Progress

27. In January, ESPO's distribution centre picked and despatched 116,239 order lines, valued at £3.889m and the transport fleet with couriers made 16,647 deliveries. Warehouse picking was performed at a rate of 39 lines per hour against a target of 32 and the error rate detected by quality assurance (QA) was 1% against the budget of 3%. The average order value for stock orders in January was £228.03 compared to the budget of £201.93. Operational and Information Technology (IT) costs year to January 2024 were £11.753m against a budget of £11.754m. Stock availability averaged 98.7% in January, the stock value was £9.402m with a stock turn of six.

28. The Customer Services team handled 4,267 calls across the three customer service channels. Average wait times across all teams was 25 seconds with 86% in less than 30 seconds. The team processed 24,953 customer orders valued at £3.933m. Online and electronic converted orders were at 89.7% of the total, aided by the new automated order processing system. Direct orders currently valued at £938k 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. 5,878 responses to email enquiries were recorded using the ticketing system and the customer satisfaction rating was 93.7%. ESPO's FEEFO customer rating improved to 96%.

29. Facilities management (FM) in January ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. All the site washrooms were refurbished and general plumbing repairs undertaken. The glass office doors on the ground floor were reinforced to allow for effective utilisation and future proofing. In conjunction with insurers, the sprinkler fire pump is in the process of replacement and on-schedule; completion planned for end of February 2024. The FM team have been active in supporting the warehouse extension project; liaising with potential forklift truck and racking suppliers and in considering the consequential improvement plan.

30. There were four injuries reported in January. An agency worker grazed their hand during a replenishment operation. An office worker scalded their hand using the Hydroboil hot water (drinks) dispenser, they were attended to by a first aider immediately and hand run under cold water for 20 minutes and burns gel applied. A night shift picker suffered bruising to their shin from a box. A warehouse operative caught their left hand on the edge of a picking trolley causing a small graze to the top of the hand.

31. A dedicated Health and Safety (H&S) risk register has been created to inform the corporate risk register to include specific warehousing and transport risks. This will be reviewed at the bi-monthly H&S meeting. This links to a document control database and ensures that latest risks assessments and safe system of work are in place. New dash cams and sensors have been installed on delivery vehicles from mid-November. This will provide 360 degree visibility for the driver and provide an audible alert if pedestrians are in proximity to the vehicle. This will provide extra safety at the point of delivery and it is envisaged that this will eventually become a legal requirement.

32. The Information Technology (IT) helpdesk handled 484 enquiries with a 100% satisfaction rating from internal customers. It is planned to migrate the hosting of the system from an on-premise to a cloud-based solution using a software as a service (SAAS) delivery model. For uSecure, the staff awareness training system, the overall Risk Score reduced from 144 to 135 (lower is better) – a steady improvement in the overall risk score continues to be shown. All metrics are improving, and course completion rate has improved from 95.9% to 97.2%. The IT team have been involved in preparing for the new catalogue pricing on the web site and in the creation of e-catalogues.

Staffing

Wellbeing

33. As part of ESPO's commitment to employee wellbeing, a health surveillance is being introduced for employees on the night shift. This will be delivered by ESPO's Occupational Health supplier Optima. To support this the Health and Safety team has been delivering bespoke courses to the night shift about managing their sleep patterns and how this will improve their general well-being.

34. Sick absence levels in 2023/24 continue to track lower than in 2022/23 and the rolling 12 months average of full time employment (FTE) days absent was 7.16 in the third quarter of the year (table 1 below). Higher levels of Cough, Cold and Flu / Covid are being seen which is to be expected during the winter season.

35. The three main causes of sick absence during Quarter three 2023/24 were:

    i. Musculo-Skeletal
    ii. Stress/Depression, Mental Health
    iii. Cough, Cold and Flu.

36. Monthly absence case conferences are being held with Heads of Service who have long term cases in their areas. Sickness absence continues to be pro-actively managed by line managers which have had a positive effect on reducing the sickness absence figures.

Sickness absence position

37. The table below details the end of year sickness absence levels of the previous four years, and Quarter 1, 2 and 3, 2023/24.

	19/20	**20/21**	**21/22**	**22/23**	**23/24 Q1 Jun 23**	**23/24 Q2 Sept 23**	**23/24 Q3 Dec 23**	**Total FTE days lost 01/01/23–31/12/23**
ESPO	7.20	6.80	8.64	8.28	7.50	7.97	7.16	2,298.68

Audit on Hybrid Working at ESPO

38. This has now been completed and the opinion of the Internal Audit and Assurance Service was that there was Substantial Assurance that hybrid working is embedded in the organisation to ensure that performance levels and requirements are maintained, staff wellbeing support is adequate, satisfactory health and safety and data security arrangements are in place and the right tools are readily available both in the office and whilst working offsite.

Resources Implications

39. There are no resources implications arising from the recommendations within this report.

Recommendation

40. It is recommended that the Committee note the update provided by the Director on the actions and progress made since the last update provided to Members in November 2023.

Equality and Human Rights Implications

41. There are no equality and human rights implications arising from the recommendations within this report.

Background Papers

42. None.

Appendices

Appendix A – Balanced scorecard
Appendix B – Risk Review extract

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