ESPO MANAGEMENT COMMITTEE – 18 SEPTEMBER 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 June 2024.

Background

Financial Performance – 4 months to July 2024

Summary

Year to July 2024 – Period 4					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	25.9	(0.3)	(1.2%)	(0.0)	(0.0%)
Direct Sales	5.8	(0.8)	(12.1%)	(0.5)	(8.2%)
Rebate income	5.0	(0.1)	(1.4%)	0.3	6.5%
Total Sales (Exc Gas)	**36.7**	**(1.2)**	(3.1%)	**(0.2)**	(0.6%)
Stores Margin %	28.6%	0.7%		(3.1%)	
Directs Margin %	17.5%	0.7%		2.1%	
Total Gross Margin	14.1	0.0	(0.2%)	-0.6	(4.2%)
Total Expenditure	9.6	0.5	5.5%	(0.8)	(7.7%)
Trading Surplus	**4.5**	**0.5**		**-1.4**	
Trading Surplus %	12.2%	1.6%		(3.8%)	

2. After 4 months, a surplus of £4.5m has been made which is £0.5m better than budget.

3. Following the launch of the new catalogue on 1 April trading has performed well, despite the unexpected contraction of the educational supplies market. The market remains tight but ESPO's offer is highly competitive in the market attracting pockets of growth. Rebate income from frameworks has also started well and is £0.3m ahead of last year.

4. Costs continue to be tightly controlled with expenditure of £9.6m, £0.5m better than budget.

5. For the full year, the budget is a surplus of £7.2m. Trading in the first quarter of the year has been positive from the growth experienced but the educational supplies market has been deeply impacted in 2024/25 from the budget challenges facing schools which have actively deferred non-essential expenditure.

6. Regarding ESPO's cost base, the pay award offer from employers is lower than the budget assumption and whilst not agreed by trade unions this provides a £0.2m budget saving.

7. Once ESPO has completed trading through the summer and the back-to-school period, an updated view on the year end outturn will be taken. For now, the latest guidance for the full year is a trading surplus of £7.2m, in line with budget.

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	25.9		(0.3)	(1.2%)	(0.0)	(0.0%)
Direct Sales	5.8		(0.8)	(12.1%)	(0.5)	(8.2%)
Rebate income	5.0		(0.1)	(1.4%)	0.3	6.5%
Total Sales	**36.7**		**(1.2)**		**(0.2)**	
Stores Margin	7.4	28.6%	0.1	0.7%	(0.8)	(3.1%)
Directs Margin	1.0	17.5%	(0.1)	0.7%	0.0	2.1%
Rebate income	5.0		(0.1)	(1.4%)	0.3	6.5%
Gas Margin	0.1	1.2%	(0.0)	0.1%	(0.0)	(0.1%)
Catalogue Advertising	0.4		(0.0)		(0.2)	
Misc	0.2		0.0		0.0	
Total Gross Margin	**14.1**	**38.4%**	**(0.0)**	**1.1%**	**(0.6)**	**(1.5%)**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	9.7		(1.8)	(15.5%)	0.6	7.0%
Gas Margin	0.1	1.2%	(0.0)	0.1%	(0.0)	(0.1%)

8. Total sales to July 2024 were £36.7m, are £1.2m behind budget and £0.2m behind last year. Rebate income is performing well with higher collections than 2023/24.

9. Stores sales were £25.9m and £0.3m behind budget. Trading has suffered across the first four months due to an unexpected contraction of the market. In ESPO's 2024/25 budget, a 3% volume growth was assumed based on C3 market intelligence, but a significant market contraction has actually occurred. Member based stores spend is down 15% and the British Educational Suppliers Association (BESA) has also indicated a similar reduction across the Educational Supplies market.

10. ESPO has managed to offset the contraction of the educational supplies market with its competitive pricing strategy across the TOP500+ products and growth into the Consortium areas following its closure. Customers continue to make good use of ESPO's loyalty-based promotions to secure best value for money.

11. Gross profit margin % for Stores at 28.6% is slightly ahead of budget. Last year margin improved as some cost price reductions were achieved from suppliers in year. ESPO continues to monitor competitor pricing on key lines to ensure pricing remains competitive. A key element of the pricing strategy is to offer great everyday value to customers, rather than applying many promotions through the year.

12. Directs sales were £5.8m and are behind budget by £0.8m. The budget assumed volumes would be in line with 2023/24. Sales are 8.2% behind last year reflecting the funding pressures in schools impacting larger purchases, such as classroom furniture and equipment replacement, which schools are deferring. A good pipeline of orders exists for furniture and equipment sales being fulfilled during August/September which should improve on the current position.

13. Gross profit margin % for Direct Sales at 17.5% is +0.7% ahead of budget, but this is largely due to the mix of product sold. Margin % is expected to return to budgeted levels as progress is made throughout the year.

14. Rebate income of £5.0m is £0.3m ahead of last year showing some continued growth on the prior year. Rebate income is £0.1m behind budget however there is £0.1m of deferred income which is unrecognised due to supplier information not yet being confirmed. Framework rebates continue to perform well with the wide range of frameworks offered and a good pipeline in place of contracts secured for the future.

15. Other income is in line with budget.

16. Overall gross profit margin at £14.1m is in line with budget.

Expenditure

Expenditure			
£m	**Actual**	**B/(w) than budget**	**B/(w) than LY**
Employee Costs			
Staff	5.2	0.7	(0.4)
Agency/Contract	1.1	(0.4)	(0.2)
Total	**6.3**	**0.3**	**(0.6)**
Overhead Expenses			
Transport	1.3	0.1	(0.2)
Warehouse	0.3	0.0	(0.0)
Procurement	0.1	0.1	0.0
Sales & Marketing	0.2	0.0	0.1
Finance	0.7	(0.0)	0.0
IT	0.5	0.0	(0.1)
Directorate	0.3	(0.0)	(0.1)
Total	**3.3**	**0.2**	**(0.2)**
Total Expenditure	**9.6**	**0.5**	**(0.8)**
As % of Total Sales Excluding Gas	**26.2%**	**0.5%**	**(2.3%)**

17. Total expenditure of £9.6m is £0.5 lower than budget. A continued focus on strong cost control across all areas is retained.

18. Expenditure as a % of sales is one KPI which enables ESPO to measure cost control in relation to sales. At July this KPI was 26.2% and is 0.5% better than

budget and shows costs are being controlled in relation to sales activity and inflationary growth.

19. Staff costs include an assumption for the 2024/25 pay award (£1,972) which could potentially be lower as the current Local Government Pay offer remains at £1,260.

ESPO Trading Limited/Eduzone

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

ETL and Eduzone - Year to July 2024			
£k	**Actual**	**B/(w) than Budget**	**B/(w) than LY**
Eduzone Sales	184	12	(8)
ETL Sales	594	244	283
Total Sales	778	256	275
Eduzone Gross Margin	61	1	(9)
Eduzone Gross Margin %	33.4%	(1.7%)	(3.3%)
ETL Gross Margin	152	57	53
ETL Gross Margin %	25.6%	(1.4%)	(6.1%)
Total Gross Margin	213	58	44
Eduzone Expenditure	(89)	(8)	(0)
ETL Expenditure	(47)	0	(12)
Total Expenditure	(136)	(8)	(12)
Trading Surplus	78	51	32
Trading Surplus %	10.0%	4.9%	1.0%

21. Total sales of £778k are £256k better than budget.

22. ETL serves international and private sector customers and has started strongly with sales ahead of budget and some earlier ordering ahead of the peak summer international period.

23. Eduzone, focuses on early years in the UK, and is slightly behind budget. The nursery market faces similar financial pressures to schools but lacks some of the additional funding that was announced for schools in Autumn 2022. Staff recruitment and retention remains a significant issue within the nursery sector. Nurseries have been struggling to stay afloat due to ever-increasing running costs including utility bills, business rates, food bills and, from August, an increase in the National Minimum Wage. Nursery group customers acquisition activity has slowed but Nursery Groups are still performing well due to their balance sheet security, sharing of administrative burden and ability to navigate through staffing shortages.

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

25. Overall, a £78k surplus has been generated, this is £51k ahead of budget and £32k ahead of last year.

Full Year Expectation

26. At this early stage in the year guidance for the full year remains at the budgeted level, of a £7.2m surplus.

Other

ESPO P&L – July 2024

	Year to Date @ July 24					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	25,913		26,233	(1.2%)	25,916	
Direct	5,799		6,594	(12.1%)	6,314	
Rebate Income	4,969		5,039	(1.4%)	4,666	
Gas	9,702		11,478	(15.5%)	9,066	
Catalogue Advertising	397		401	(1.0%)	576	
Other Income	196		150	30.9%	169	
Total Sales (Excluding other income)	**36,680**		**37,866**		**36,896**	
Cost of Sales						
Stores	18,513		18,935		17,705	
Direct	4,784		5,486		5,344	
Gas	9,582		11,346		8,941	
Total Cost of Sales	**23,297**		**24,421**		**23,050**	
Margin						
Stores	7,399	28.6%	7,299	27.8%	8,210	31.7%
Direct	1,015	17.5%	1,108	16.8%	970	15.4%
Rebate Income	4,969		5,039		4,666	
Gas	120	1.2%	132	1.2%	125	1.4%
Catalogue Advertising	397		401		576	
Other Income	196		150		169	
Total Margin	**14,096**	38.4%	**14,129**	37.3%	**14,716**	39.9%
Warehouse and Transport						
Employee Costs						
Staff	2,137		2,702		2,104	
Agency/Contract	1,091		683		822	
Total	**3,228**		**3,386**		**2,926**	
Overhead Expenses						
Transport	1,276		1,365		1,105	
Warehouse	302		339		297	
Total Warehouse and Transport	**4,805**	18.5%	**5,089**	19.4%	**4,329**	16.7%
Head Office						
Employee Costs						
Staff	3,074		3,213		2,751	
Agency/Contract	18		13		47	
Total	**3,092**		**3,226**		**2,799**	
Overhead Expenses						
Procurement	70		174		70	
Sales & Marketing	239		242		332	
Finance	667		660		708	
IT	465		475		395	
Directorate	286		262		186	
Total	**1,726**		**1,813**		**1,691**	
Total Head Office	**4,818**		**5,039**		**4,490**	
Total Expenditure	**9,623**	**26.2%**	**10,128**	**26.7%**	**8,818**	**23.9%**
Trading Surplus	**4,473**	**12.2%**	**4,001**	**10.6%**	**5,898**	**16.0%**

Operational Progress

27. In July, ESPO's distribution centre picked and despatched 217,169 order lines, valued at £7.621m and the transport fleet with couriers made 22,000 deliveries. Warehouse picking was performed at a rate of 35 lines per hour against a target of 32 lines per hour. The error rate detected by quality assurance (QA) was 6% against the target of 3% reflecting the use of seasonal agency staff. Once detected the errors are flagged with the relevant staff to avoid further mistakes. The average order value for stock orders in July was £366.16 compared to the budget of £347.64. Operational and Information Technology costs year to July 2024 were £5.486m against a budget of £5.779m. Stock availability averaged 96.2% in July, the stock value was £11.805m with a stock turn of 4.75. ESPO coped well during the annual peak trading period with all customer delivery promises met on time.

28. The Customer Services Team handled 5,980 calls across the three customer service channels. Average wait times across all teams was 56 seconds with 54% in less than 30 seconds. The team processed 29,918 customer orders valued at £9.527m. Online and electronic converted orders were at 86.4% of the total, aided by the new automated order processing system. Direct orders currently valued at £2.445m 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. 7,255 responses to email enquiries were recorded using the e-ticketing system and the customer satisfaction rating was 93.7%. ESPO received 59 service ratings from FEEFO and our customer rating was 91%. The results of ESPO's annual Business Benchmarking Survey for The Institute of Customer Service showed a score of 86.1% compared to the UK Customer Satisfaction Index for Retail non-food, of 80.4%. Further details of the survey are included later on this agenda for the Management Committee.

29. Facilities management (FM) in July ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. In conjunction with insurers, the sprinkler fire pump has been upgraded. The site access control system is being upgraded with new door hardware and card readers. The FM team has been active in supporting the warehouse extension project, liaising with potential forklift truck and racking suppliers and in considering the consequential improvement plan. Following a procurement exercise, a supplier has been chosen for the provision of a narrow aisle truck that will operate in the new warehouse extension. A plan to upgrade the canteen facilities has been approved, which will incorporate enhancements to the seating areas and vending facilities. Enhancements were made to the office lighting as part of the consequential improvement plan associated with the new warehouse build programme.

30. There were no reported injuries in July. As part of ESPO's staff welfare programme, night shift workers undertook a health surveillance exercise with the Leicestershire County Council approved occupational health provider. Following a push-through incident (when a pallet has been pushed through to the racking behind) in the warehouse on 12 July an action plan has been created to avoid similar occurrences in the future. This includes both investments and process management which will be agreed by the Leadership Team (LT). A draft carbon reduction plan has been received from ESPO's environmental consultants AECOM as part of our ambition to achieve ISO 45001 status. The plan, which includes

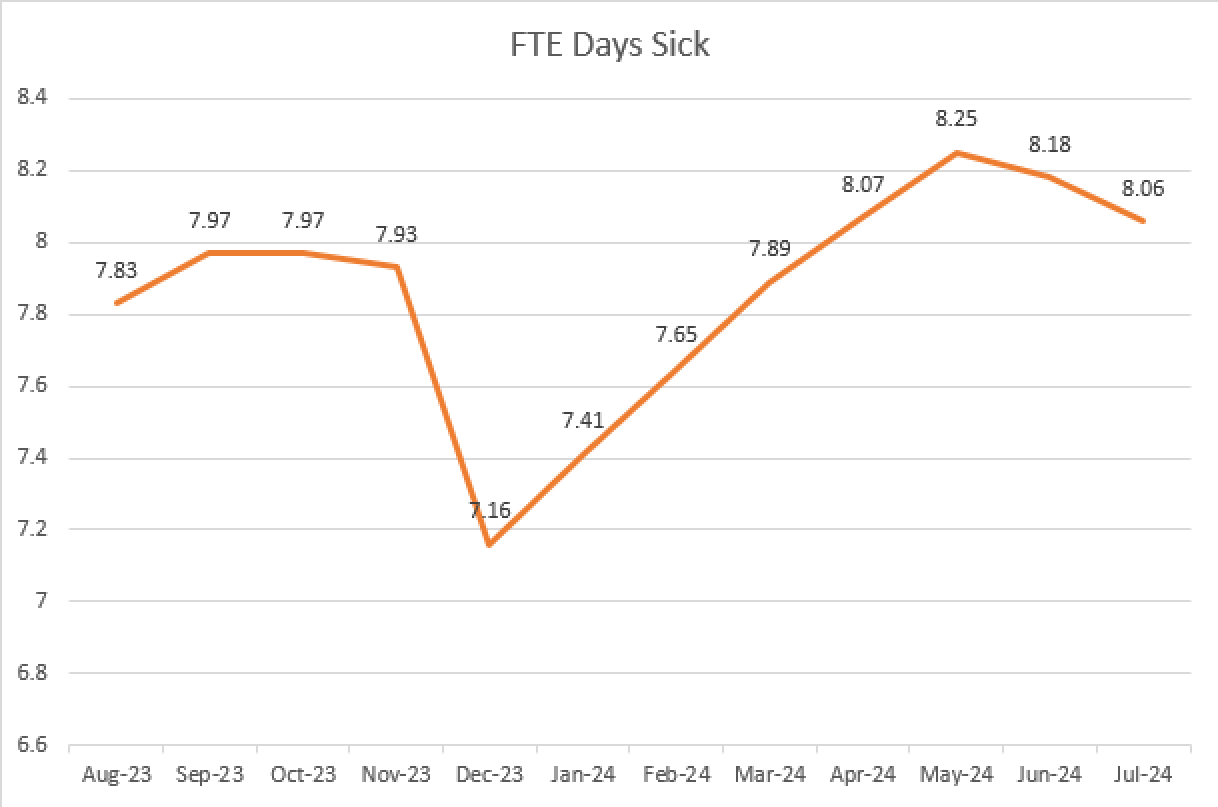
sources of data collection and an improvement plan will be agreed by LT. This programme is being led by a team with LT sponsorship.

31. The Information Technology (IT) helpdesk handled 668 enquiries with a 100% satisfaction rating from internal customers. Plans are in place to enhance the ESPO intranet site using Sharepoint which will create a more dynamic interactive digital workspace for staff. For uSecure, the staff awareness training system, the overall Risk Score reduced for consecutive months from 116 to 114, and the course completion rate has improved from 97.2% to 98.7%. The Information Technology Decision Group (ITDG) agreed a number of updated standard IT policies. Following a review of the procurement options for the provision of a cloud-based hosting solution for ESPO's ERP system the team has identified a CCS framework as a possible solution. The framework uses standard framework terms and conditions and is specifically designed for Software as a Service solutions and has a direct award option. The contract is currently being reviewed by ESPO's legal team. Subject to this process, it is hoped to make the award during September.

32. The warehouse extension build plan at Grove Park is nearing completion with the cut-through being made to the existing warehouse. The new warehouse is now fully racked with accompanying sprinkler systems and all lighting equipment is installed. The cabling for the WIFI network will be extended into the new warehouse during September and the car park is being refurbished during August/September. Completion is scheduled for October 2024. It is anticipated that the costs will remain within the original agreed budget of £6.8m. The project board continues to monitor progress in conjunction with consultants Pick Everard. Members of Management Committee will be invited to a site tour event in November, directly following the Management Committee meeting.

Staffing

33. The first quarter of 2024/25 started to show an increase in absences (see chart below) with a peak in May 2024. There were a number of long-term absences for a variety of reasons that returned to work, with support from both managers and HR. The evidence of this can be seen in the reduction in absence in June and July.



34. The three primary causes of sickness absence during Quarter 1 of 2024/25 were:

Quarter 1 (Apr-Jun 2024)		
	FTE Days Lost	Percentage
Other Musculo-Skeletal Problems	111.99	47%
Back and Neck Problems	58.46	12%
Stress/Depression, Mental Health	57.03	12%

Stress/ Depression, Mental Health absence has continued to reduce over the past four months. However, Musculo-skeletal (including back and neck) have seen an increase. None of these absences have been declared as attributable to work related activities.

Resources Implications

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

Recommendation

36. It is recommended that the Management Committee note the update provided on the actions and progress made since the last update provided to Members in June 2024.

Equality and Human Rights Implications

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

Background Papers

38. None.

Appendices

Appendix A – Balanced scorecard
Appendix B – Risk Review Extract

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