ESPO MANAGEMENT COMMITTEE – 13 NOVEMBER 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 September 2024.

Financial Performance

Summary

Year to September 2024 – Period 6					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	35.5	(0.3)	(0.7%)	0.1	0.4%
Direct Sales	10.2	(0.9)	(8.1%)	(0.4)	(3.7%)
Rebate income	6.8	(0.0)	(0.3%)	0.3	4.6%
Total Sales (Exc Gas)	**52.5**	**(1.2)**	(2.2%)	**0.0**	0.1%
Stores Margin %	28.8%	(0.7%)		(2.6%)	
Directs Margin %	19.3%	2.9%		3.7%	
Total Gross Margin	19.9	-0.2	(1.2%)	-0.4	(1.9%)
Total Expenditure	14.2	0.6	4.8%	(1.1)	(7.1%)
Trading Surplus	**5.7**	**0.4**		**-1.5**	
Trading Surplus %	10.9%	1.0%		(2.8%)	

2. After 6 months, **a surplus of £5.7m has been made which is £0.4m better than budget**.

3. Rebate income from frameworks continues to perform well at +£0.3m ahead of last year. Rebate income was previously below budgeted levels due to differing timing of billing activities but has now caught up in September.

4. In the Catalogue business the overall educational supplies market remains contracted and fiercely competitive with private sector making significant investments to attract educational supplies customers.

5. ESPO's price offer across the Top 500 products remains competitive and offers good value to customers. There has been continued growth into development areas and areas where Consortium were previously operating. Increased volumes have been obtained from the competitive price offer enabling ESPO to continue gaining market share in the declining supplies market.

6. ESPO continues to offer reliable product availability, competitive pricing, and excellent customer service.

7. Margin in the first half of the year has been positive, in line with budget, delivered through work on setting target margins and from the mix of products sold. Margin will continue to be lower than last year levels until last year's exercise books stocks are fully sold through at October month end.

8. Costs continue to be tightly controlled with expenditure of £14.2m, better than budget by £0.6m.

9. For the full year, the budget is a surplus of £7.2m, and as at September ESPO remains on track to achieve the full year budget target. ESPO has now passed both peak trading periods and the second half of the year is quieter in demand. December is a particularly quiet month due to holidays. There is caution about demand in the second half of the year as continued feedback from schools and the British Educational Suppliers Association (BESA) indicate an ongoing market contraction and reduced spend on non-essentials will continue.

10. **Latest guidance for the full year is a trading surplus of £7.2m in line with budget.**

<u>Sales and Margin</u>

Sales and Margin						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Stores Sales	35.5		(0.3)	(0.7%)	0.1	0.4%
Direct Sales	10.2		(0.9)	(8.1%)	(0.4)	(3.7%)
Rebate income	6.8		(0.0)	(0.3%)	0.3	4.6%
Total Sales	**52.5**		**(1.2)**		**0.0**	
Stores Margin	10.2	28.8%	(0.3)	(0.7%)	(0.9)	(2.6%)
Directs Margin	2.0	19.3%	0.2	2.9%	0.3	3.7%
Rebate income	6.8		(0.0)	(0.3%)	0.3	4.6%
Gas Margin	0.2	2.0%	(0.0)	0.4%	0.1	0.4%
Catalogue Advertising	0.4		(0.1)		(0.2)	
Misc	0.3		0.1		0.0	
Total Gross Margin	**19.9**	**37.9%**	**(0.2)**	**0.4%**	**(0.4)**	**(0.8%)**

Gas						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Gas Sales	12.1		(2.9)	(19.4%)	0.5	4.0%
Gas Margin	0.2	2.0%	(0.0)	0.4%	0.1	0.4%

11. Total sales to September 2024 were £52.5m, £1.2m lower than budget and in line with last year. Rebate income is performing well with £0.3m higher collections than last year.

12. **Stores sales were £35.5m and better than last year but slightly below budget**. A significant contraction in the educational supplies market continues to affect sales, typified by Member area spend being down 9% year to date (YTD). The contraction in the market reflects the ongoing funding pressures

within schools from inflation, pay, and energy. ESPO has managed to offset this contraction through targeted sales growth campaigns into development areas and additional volumes sold through the competitive pricing offer. Trading conditions remains highly competitive and ESPO customers continue to utilise the loyalty-based promotions to secure value for money.

13. **Gross profit margin % for Stores at 28.8% is slightly behind budget**. Last year margin was exceptionally strong linked to in-year cost price deflation from suppliers which hasn't occurred this year. This year the budgeted margin in the early part of the year reflected the sell through of the higher cost exercise book stocks purchased last year. Margin is expected to improve through the second half of the year as the older exercise book stocks are sold through in October.

14. **Directs sales were £10.2m and are £0.9m lower than budget.** The budget assumed a volume in line with last year. The unexpected contraction in the market, mainly affecting non-essential purchases, has particularly affected school purchases of directs products such as classroom furniture and equipment replacement, which can be deferred by schools. The funding pressures in schools impacting larger purchases, may possibly ease across the second half of the year following the Government part funding of the teachers' pay award announced in July.

15. **Gross profit margin % for Directs at 19.3% is +2.9% ahead of budget**, but this is largely due to the mix of product sold and work earlier in the year resetting target margins. Margin is expected to return closer to budgeted levels in the second half of the year.

16. **Rebate income of £6.8m is £0.3m ahead of last year and** in line with budget. It continues to perform well, with a good pipeline in place of contracts secured for the future.

17. Other income is in line with budget overall.

18. **Overall gross profit margin at £19.9m is slightly lower than budget.**

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	7.8	1.1	(0.5)
Agency/Contract	1.5	(0.7)	(0.3)
Total	**9.3**	**0.4**	**(0.7)**
Overhead Expenses			
Transport	1.8	0.1	(0.2)
Warehouse	0.5	(0.0)	(0.1)
Procurement	0.1	0.2	(0.0)
Sales & Marketing	0.3	0.0	0.1
Finance	1.0	(0.1)	(0.0)
IT	0.7	0.0	(0.1)
Directorate	0.4	(0.0)	(0.1)
Total	**4.9**	**0.3**	**(0.3)**
Total Expenditure	**14.2**	**0.6**	**(1.1)**
As % of Total Sales Excluding Gas	27.1%	0.6%	(2.0%)

19. **Total expenditure of £14.2m is £0.6m better than budget.** This mainly relates to vacancies across procurement and finance, and differing phasing of Procurement training and legal costs associated with readying the business for the change in regulations. ESPO maintains a continued focus on strong cost control across all areas.

20. **Expenditure as a percentage of sales** is one key performance indicator (KPI) which allows ESPO to measure cost control in relation to sales. This KPI was 27.1% and is 0.6% better than budget and shows costs are being controlled in relation to sales activity and inflationary growth.

ESPO Trading Limited (ETL)/Eduzone

21. ETL and Eduzone are ESPOs limited companies which service the private sector.

ETL and Eduzone - Year to September 2024			
£k	Actual	B/(w) than Budget	B/(w) than LY
Eduzone Sales	269	(21)	(49)
ETL Sales	770	290	365
Total Sales	1,039	269	317
Eduzone Gross Margin	95	(7)	(23)
Eduzone Gross Margin %	35.2%	0.1%	(1.7%)
ETL Gross Margin	200	68	73
ETL Gross Margin %	25.9%	(1.5%)	(5.4%)
Total Gross Margin	294	61	50
Eduzone Expenditure	(129)	(5)	15
ETL Expenditure	(68)	(1)	(9)
Total Expenditure	(196)	(6)	6
Trading Surplus	98	55	57
Trading Surplus %	9.4%	3.8%	3.7%

22. Total sales of £1,039k are £269k ahead of budget.

23. ETL, 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. ETL has benefitted from growth strategies, developing relationships with international distributors in the international market, and increased recognition of the ESPO brand overseas.

24. Eduzone, focusing on early years in the UK, is in line with budget, and slightly behind last year. This reflects the nursery market facing similar financial pressures to schools but lacks some of the additional funding that was announced for schools in Autumn 2022. Independent nurseries are particularly struggling with staff leaving the sector and high energy costs.

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

26. Overall, a £98k surplus has been generated, £55k ahead of budget and £57k better than last year.

Full Year Expectation

27. For the full year, the budget is a surplus of £7.2m. There are several risks and opportunities that could impact ESPO across the second half of the year:

i) ESPO's competitive price offering remains strong and regular benchmarking shows ESPO is well positioned to attract additional volumes across the remainder of the year.

ii) Revised BESA and school feedback indicates significant budgetary pressures on schools and weaker demand expected across the rest of the year.

iii) Catalogue margins have been in line with budget due to additional volumes, target margin setting and beneficial product mix. This trend is not expected to continue across the second half of the year with the contraction of the market.

iv) Directs sales could remain behind budget for the rest of the year as schools continue to focus on essentials and defer spending on furniture items. There could be a small upturn in Quarter 4 (Q4) if budget pressures are eased from the part funding of teachers pay announced in July.

v) Competition remains fierce in the Educational Supplies market. Private sector have continued their investment in the educational supplies market actively targeting the Education sector online catalogue and offering a next day delivery service as standard.

vi) Rebate income has progressed well year to date (YTD), however early indications show Central Government policy impacting major customer spend on HR and Consulting frameworks.

vii) December usually makes a loss given the Christmas closure (for ESPO and schools) and is also a slow month for rebate collection. This is budgeted.

28. The **latest guidance for the full year is a trading surplus of £7.2m in line with budget.** The second half of the year is a quieter trading period, and the forecast will continue to be adjusted as more confidence is gained over customer demand levels.

Operational Progress

29. In September, ESPO's distribution centre picked and despatched 158,806 order lines, valued at £4.959m and the transport fleet with couriers made 26,822 deliveries. Warehouse picking was performed at a rate of 32 lines per hour against a budget of 32 lines per hour. The error rate detected by quality assurance (QA) was 1% against the budget of 3%. The average order value for stock orders in September was £269.84 compared to the target of £266.13. Operational and Information Technology costs year to September 2024 were £7.994m against a budget of £8.320m. Stock availability averaged 98.2% in September, the stock value was £10.519m with a stock turn of 5.387. ESPO coped well during the annual back-to-school trading period with all customer delivery promises met on time.

30. The regular Joint Consultative Committee Meeting (JCC) with unions was held on 20 September.

31. The Customer Services Team handled 6,231 calls across the three customer service channels. Average wait times across all teams was 42 seconds with 93% of all calls answered. The team processed 29,410 customer orders valued at £4.702m. Online and electronic converted orders were at 89% of the total orders processed. Direct orders currently valued at £1.686m 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. 6,906 responses to email enquiries were recorded using the e-ticketing system. ESPO received 40 service ratings from FEEFO and the customer rating was 96%.

32. Facilities Management (FM) in September 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. A plan to upgrade the canteen facilities has been agreed, which will incorporate enhancements to the seating areas and vending facilities. The on-site recycling resources are being upgraded to facilitate recycling and waste separation. Portable appliance testing (PAT) on electrical equipment has been booked in line with Electricity at Work regulations.

33. There was a reported injury to a delivery driver who sustained injury to the ribs whilst removing parcels from a cage. This is being investigated to understand any additional training that might be required. A series of random drugs and alcohol tests were conducted on 23 September. All donors returned negative / zero results for both alcohol and drugs. 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. The

ESPO Leadership Team agreed to participate in the Healthy Workplace scheme delivered by Public Health, including MOT health checks on site.

34. A risk assessment and Safe System of Working (SSOW) have been created for the operation of the new Vector Network Analyser (VNA) truck and a Type 1 fire risk assessment for emergency evacuation of the new warehouse extension has been created. A health and safety site inspection and audit was completed at ESPO's Welsh depot on 16 September. No significant issues were identified.

35. A carbon reduction plan was presented to the leadership team on 17 September. The plan, which includes a net zero carbon reduction target has been set at 2050 in line with Leicestershire County Council. ESPO will continue to work with its environmental consultants AECOM as part of the ambition to achieve future ISO status.

36. The Information Technology (IT) helpdesk handled 633 enquiries with a 100% satisfaction rating from internal customers. ESPO is planning 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. The results from two significant audits were received, the Annual IT General Controls Audit 2023-24, and the IT Developments 2023-24 Audit. In both cases this was assessed as "Substantial Assurance" with no critical or high recommendations identified. Work continues on the introduction of using PowerBi technology to improve the quality of ESPO's management information system.

37. After a thorough assessment of the procurement options for the provision of a cloud-based hosting solution for ESPO's Enterprise Resource Planning (ERP) system ESPO identified a CCS framework as the optimum 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. This meets the required procurement regulations and enables ESPO to access the Infor System 21 through the cloud rather than on-premise. Following legal review, the contract has now been agreed. It is envisaged that the system will migrate to the cloud within the next few months.

38. The warehouse extension build at Grove Park has now been completed. The new warehouse is now fully racked with accompanying sprinkler systems and all lighting equipment is installed. The cabling for the WIFI network was extended into the new warehouse during September and the car park was refurbished during August/September. Work is now underway to re-locate stock into the new warehouse from external sources and from the existing bulk storage. New, highly visible, signage will be installed in October which will promote the ESPO logo to thousands of passing motorists each day. Members will be able to see, first-hand, the completed facility on their visit following Management Committee.

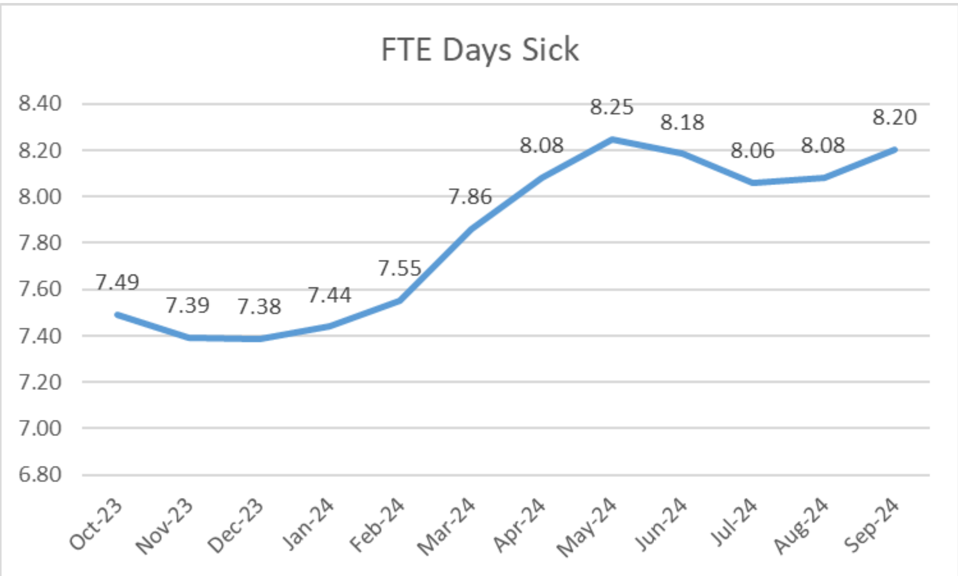
Staffing

39. The three primary causes of sickness absence during Quarter 2 of 2024/25 were:

Quarter 2 (Jul -Aug 2024)		
	FTE Days Lost	Percentage
Other Musculo-Skeletal Problems	254.42	39.87%
Back and Neck Problems	83.03	13.01%
Stress/Depression, Mental Health	63.51	9.95%

40. The top three health reasons have stayed the same as Quarter 1, however Musculoskeletal has increased during Quarter 2 but over 16%, whilst back and neck problems has only increased by 0.6%. Stress/depression, mental health has actually decreased since Quarter 1 by over 2%. The cases are not work related and are all being managed with the support of Human Resources (HR).

41. Overall sickness absence did start to decline after Quarter 1. However, September saw a rise in absence, with a 100% increase in the number of days attributed to Other musculo-skeletal problems. This increase can be seen in the graph below:



42. An Essential Development Programme for managers and aspiring managers is to be launched over the coming months, including targeted supervision/ first line manager training and completion of mandatory training in relation to Human Resources policies and procedures.

Resources Implications

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

Recommendation

44. 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 September 2024.

Equality and Human Rights Implications

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

Background Papers

46. None.

Appendices

Appendix A – Balanced scorecard
Appendix B – Risk Review Extract

Officer(s) to Contact

Kristian Smith
Director
k.smith@espo.org
0116 265 7887

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