



## **ESPO MANAGEMENT COMMITTEE – 25 MARCH 2011**

### **AGENDA ITEM NO. 4**

#### **PROGRESS REPORT**

#### **REPORT OF THE INTERIM DIRECTOR**

##### **Purpose of Report**

1. The purpose of this report is to advise the ESPO Management Committee of progress made since the last Committee Meeting in December 2010. An update on the financial performance of ESPO is given under Item 5 (report B), elsewhere on the Agenda for this meeting.

##### **Background**

2. Since my last Progress Report I have instigated a number of interim structural changes, introduced projects to realise efficiency and improvement savings in forty discrete areas and endeavoured to strengthen relationships not only within the ESPO membership, but regionally and nationally.

##### **Interim Management Structure**

3. Pending the outcome of the Review I have agreed with Leicestershire County Council, ESPO's servicing authority, arrangements to temporarily strengthen senior management. This will enable ESPO to develop and support key functions of the organisation, in particular marketing and compliance, and also assist in the development and integration of new practices such as business case methodology, project planning, staff utilisation, personal development reviews (PDR's) etc. I have taken a view that as ESPO has grown, and no doubt will grow further in the future, certain ways of doing business need to be reviewed and improved, and where possible efficiencies through economies of scale maximised.
4. The Assistant Director (Commodity Division) has agreed, on a temporary basis, to look at developing a marketing function within ESPO to strengthen our market engagement, both with suppliers and customers.
5. The Deputy Director (Strategic Division) has agreed to develop a Compliance Division, which will encompass legal, procedural and compliance methodologies and will operate in a 'pan-organisational' role developing pre-procurement routines, project planning, business case methodology, resource management, etc. The intention is then to consider further ESPO's structure in the light of the Business Strategy Review and its intended agreed strategic approach to future procurement on behalf of our Members.

6. At this stage I have taken the view that the existing Assistant Director/Deputy Director have better experience in developing the strategic and operational functions of these two relatively new areas, and in order to help with day to day operations I have proposed two temporary posts above Group Buyer level.
7. These posts are to strengthen and share the developmental role of what I am proposing, share in the discussion and shaping of a new way of working, and give the newly appointed post holders support in developing their own management skills. The intention is that at the end of the Review ESPO can consider how these proposals have impacted on business efficiency, and reflect on the future direction of the business.

### **HR and Training**

8. As outlined in my December Progress Report a review of ESPO's HR/Training Department has now been undertaken, resulting in recognition that a more focussed advisory function is required, to assist line managers to directly engage with their staff on HR issues. ESPO's HR staff can only achieve this by relinquishing the administrative tasks they currently perform and discussions are underway to resolve this.
9. In June this year forty-two line managers will each receive 1.5 days' training in absence management and Personal Development Review (PDR) processes. The purpose of the former is to achieve a reduction in sickness/absence; the latter is to encourage staff to interact with their line managers in a mutually beneficial way. I see this as a significant cultural shift to improve internal communication.
10. I am also keen that ESPO's HR staff have the opportunity to develop both their management skills and their careers. Once the processes of PDR and absence management training have been thoroughly integrated within ESPO, I envisage their working more closely with Leicestershire's HR function, which will allow them greater professional HR development opportunities. However, an administrative function will remain at ESPO, linked virtually with Leicestershire's Employee Service Centre, to recognise the physical separation between ESPO and County Hall.

### **Efficiency Savings**

11. The projects initiated since my arrival are progressing. Some will bring negligible financial benefit but will streamline working practices, e.g. standard documentation processes, others will bring substantial financial benefit, e.g. the Warehouse Order Picking System which it is estimated could save up to £230k per annum and is explained in more detail below.
12. Examples of key areas of action in progress are:

- a) Warehouse Order Picking System

Warehouse orders vary dramatically from many single line orders, to a few orders of 100+ lines or greater and physically very small orders to several

tonnes of goods, but overall some 11% of the 11,000 items held in stock account for 51% of the lines picked. At the busiest time of the year (late June/early July) staff in the ESPO warehouse will typically pick each day 2,200 orders (17,000 order lines) with a sales value of £250k for 1100 different customers from printed paper picking lists.

The current method is relatively labour intensive. In the current process orders are picked by staff from paper picking lists and collated into vehicle loads, but it is the production and handling of those thousands of pieces of paper every day that is a major constraint.

The broad concept of picking orders from stock in a warehouse without paper picking lists has been around for many years. The key is to find a system that is relevant to practical working methods and integrates with the core warehouse IT system.

Being able to move away from paper instructions allows many other improvements, including reducing lead time from entry of customer orders onto the system to planning for despatch, real time information to assist with re-ordering, real time information for the planning and monitoring of work in each area of the warehouse and appropriate staff resources, the ability to hand over work easily at the end of shift patterns and real time confirmation of pick thus eliminating a separate manual operation. Using 'hand held' terminals with bar code scanning reduces the errors of picking items from incorrect locations. The issuing of instructions directly to the data guns eliminates walking back to the control point.

Picking within specific zones reduces walking via the introduction of simple conveyor systems to move goods from an area to packing etc, and then to marshalling. Picking by zone also facilitates the bringing together many of the smaller, fast moving items, with the minimum of walking between picks, whilst allowing for the picking of a wide range of slower moving items to be collated within the load and picked separately, using ride on trucks etc, that may not be appropriate in the 'fast moving' areas, thus significantly reducing the separate walking, handling and marshalling times.

In terms of staffing implications, this will be managed through temporary staffing arrangements and natural staff turnover.

The financial implications of the introduction of this system are covered in more detail within the Finance Report at Item 6 (Report D) of the agenda. In summary, however, the initial cost of £450k is to be funded from the 2010/11 operating Surplus. This will be recouped within 2 years as a result of estimated savings of £230k per annum.

#### b) Waste

We have recently reviewed the arrangements for waste collection within the ESPO building, and plan to increase the card, plastics, paper, wood and metal sent directly to recycling from 136 tonnes per year to circa 171 tonnes per year, with an additional 18 tonnes of waste being treated as biodegradable and a residue of around 8 tonnes going to landfill. The net

cost of disposal will decrease from a charge of £10.5k per year to a small net income of £2k per year. All of this will be enhanced by increased recycling resulting from the “Go Green” initiatives also introduced throughout the ESPO building.

c) Lighting

The original 'High Bay' metal halides were fitted without controls and only basic switching. With constant running for 4500 hours per year they now require regular lamp changes.

The 250w fittings in the pallet racking areas have been replaced by T5 technology 80w tubes which have at least an 8 year life. They provide a much improved level and distribution of lighting over all of the pallet racking area and are now been fitted with daylight and presence-sensing controls. For a total investment of £20,350, the running costs will be reduced by £7,200 per annum, as well as having an extended life span.

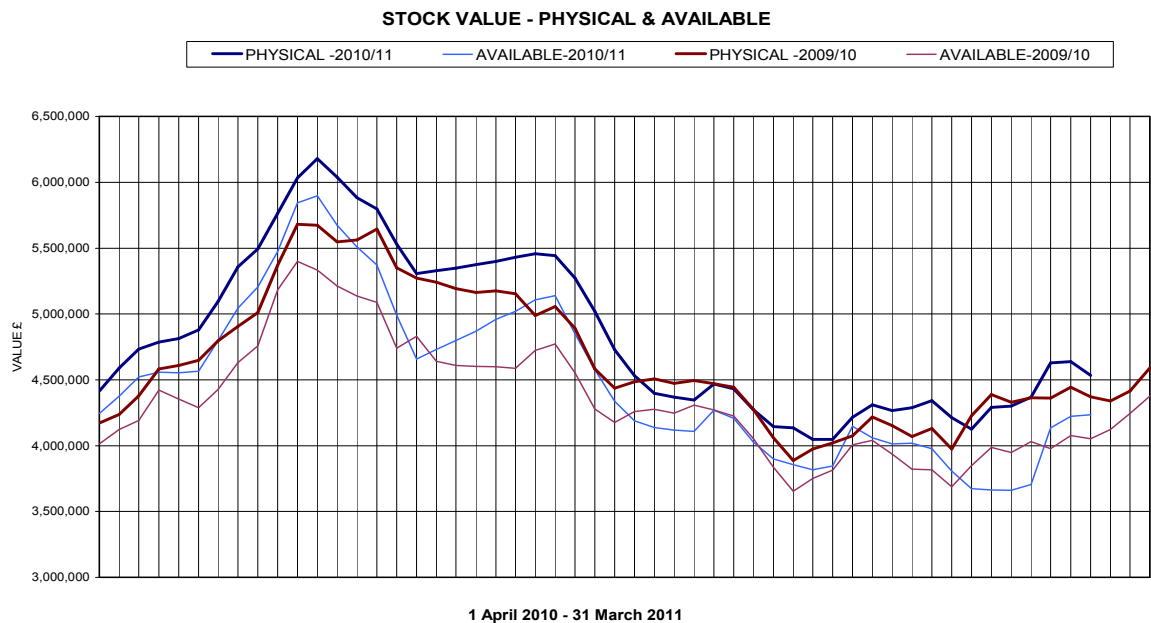
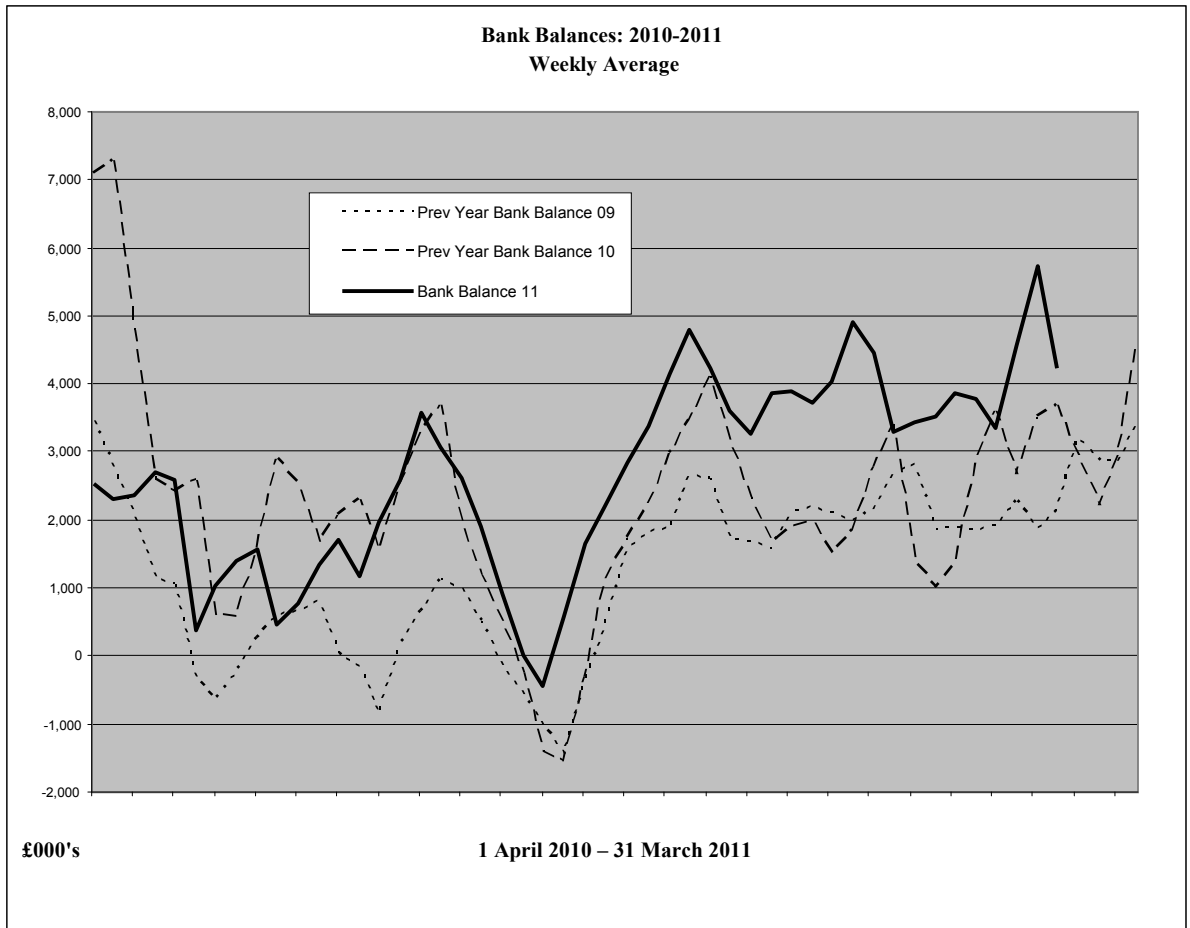
The 400w metal halide fittings in the 'open' areas of the warehouse are being replaced with 100w LED lamps which have a life in excess of 12 years. The quality of the light is much improved being 'daylight', and the running costs will reduce by £11,800 per year for an investment of £11,300.

Quotations are awaited for further work on the switching etc, as well as providing daylight sensors which, if cost effective, will produce further savings.

Existing fluorescent tubes are to be replaced by equivalent LED lamps, and quotes are also awaited, but indications are that savings of £7,400 per year could be achieved for an investment of around £26k, with a 12 year life cycle.

**Cashflow**

13. ESPO currently has a healthy bank balance and the following graph shows weekly average cash balances. The average clear balance over the last month was £4.3 million. There is an improvement over the prior year's bank balance which has progressively increased from June 2010. The increase during the last month over the same period in 2009-10 has averaged £1.1 million.
14. The initial reason for this change was the withholding of 50% of staff bonus for 2009-10 amounting to £0.25 million, which in previous years was paid in July/August. The next significant increase arose in November 2010 following non-payment of Member Authorities' dividend for 2009-10 amounting to £0.8 million.



15. ESPO continues to pay suppliers to terms and manage debts proactively. The resulting levels of creditors and debtors are in line with prior years.
16. Some forty suppliers have been contacted to explain that we are applying their previously advised discount terms from 1 March. A system is now in place whereby ESPO's Buying Teams establish at supplier meetings what the discount terms are and request that these be put in writing to ESPO

Accounts Payable department. An update on savings as a result of this approach will be advised to Committee at its June meeting.

### **Fuel Efficiency**

17. One of the forty projects referred to under Background above, relates to fuel efficiency and the desire to increase the “miles per gallon” achieved by vehicles in ESPO’s delivery fleet. The benefits of this are two-fold: a reduction in fuel costs and a reduction in ESPO’s carbon footprint. In February, 16 drivers completed a Safe and Fuel Efficient Driving (SAFED) course to improve driving techniques and greater driver awareness. A further tranche of drivers will attend the course in April. Lowering the cost of transport is a priority and will continue to be an area of additional savings in real terms.

### **Planned Progress: March – September 2011**

#### **Contracts**

18. The MSTAR contract, subject to Management Committee approval today, will prove a significant landmark in terms of national collaboration (see item 10 (Report H) on this agenda).
19. Procurement for the Energy contract (reported to Management Committee on 6 December 2010) is now drawing to a close. Tenders for the supply of gas and electricity to be supplied from 2012 were sought in collaboration with ESPO’s Pro5 partner, LASER, a London and South-East England-based consortium. The total combined portfolio accounted for approximately one-third of local government in England.
20. A total of 3 bids were received for gas, and 4 bids for electricity. Following the Management Committee’s decision to delegate authority to award contracts as a result of the tender exercise, contracts have been awarded to Total Gas & Power for the supply of gas during the four years commencing April 2012, at an estimated annual cost of £29.2m (£117m over four years). As a result of the reduction in supplier margins secured through tendering, the contract will deliver an estimated cost reduction of £0.88m per annum.
21. Evaluation of the electricity tenders is nearing conclusion and award of contracts is anticipated by mid-March.
22. Within Energy, the number of customers, and therefore the numbers of sites under management, has grown considerably in the last year, following the decisions of Derby and Nottingham City Councils to participate in the ESPO gas and electricity contracts from December 2010. It is set for further significant growth in the next six months as a result of a decision by the Black Country Consortium (Dudley and Sandwell Metropolitan Boroughs, and Wolverhampton City Council) to place all its gas and electricity procurement with ESPO. Overall, this will equate to a total increase in the gas portfolio of +30% and electricity of +68% between January 2010 and October 2011. Such an increase will require additional resources to manage, which will be financed through the revenue raised.

## Major Projects

23. Following the decision by members at the Management Committee Meeting, 24 September 2010, to limit major project activity to confirmed projects identified at the Chief Officer Group Meeting of 1 September 2010, I can confirm that these projects continue to be “managed out” with a net trading contribution. It is anticipated, including the current year, that the net contribution will be circa £730K, with a peak contribution in 2012/13.

## Catalogues

24. ESPO’s Marketing Department workload has been dominated by production of the new series of ESPO catalogues. This year a logo is being added to reflect ESPO’s 30<sup>th</sup> year of operation: “30 Years of Smarter Buying from 1981 – 2011”. Customer perception of ESPO’s catalogue marketing is covered later on the agenda under item 11 (Report I).

## Director’s Action Plan

25. As part of managing my engagement my key priorities are agreed with the Consortium Secretary and Treasurer. A 6 month Action Plan has been agreed and Members will be briefed at the meeting. Progress against the Action Plan is monitored weekly.

## Succession Planning

26. The current Assistant Director – Finance, Mike Kendall, has indicated he is likely to retire in December 2011. In order that a reasonable handover period can take place it is proposed to advertise for a replacement following completion of the Business Strategy Review in mid-April, subject to Member approval. The role and responsibilities of the post will be reviewed and an appointment is anticipated by September, to ensure a planned handover of duties.

## Three Year Business Plan

27. ESPO’s current Five Year Business Plan was last updated in September 2009 and has not been circulated to Committee since. Once the Business Strategy Review is complete this document will be reviewed and submitted to the Management Committee for approval. Integral to this will be identifying and scoping the organisation’s objectives which will be cascaded throughout the organisation by the PDR process.

## 28. Audit Log

Since the Management Committee meeting in December 2010, I have updated the Audit Log to take account of completed actions (see Appendix 1, attached).

## Action Plan to Implement the Review Outcomes

29. Following conclusion of the Review an Action Plan will be put in place to ensure those recommendations approved by Members are pursued.

## Resources Implications

30. There are temporary regrading costs of two Senior Group Buyers referred to in paragraph 6, above. There will also be a requirement for training resource via Leicestershire County Council's HR, referred to in paragraph 9 above. There are also various invest to save efficiency projects referenced in the report which are expected to not only recoup their initial cost outlays but reduce operational costs on an ongoing basis in future years.

## Conclusion

31. ESPO continues to demonstrate growth and significant developments are taking place. With the culmination of the Review, there will be even greater opportunities for ESPO to continue to improve both in efficiency and effectiveness and to support Member Authorities through the tough financial climate.

## Recommendation

32. Members are asked to:
- (i) note and approve the content of this report;
  - (ii) approve the expenditure of £450k 'invest to save' funding from the 2010/11 Operating Surplus for the Warehouse Order Picking System.

## Equal Opportunities Implications

33. None.

## Risk Assessment

34. None

## Background Papers

35. None.

## Officer to Contact:

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