Appendix A

ANNUAL REPORT

INTRODUCTION

The combined turnover of Stores sales, Direct orders, Period contracts (frameworks) and contracts placed on behalf of specific customers (Commissioning), totalled just over £546m for the year 2010/11, an increase of £26m on 2009/10 (5%). This is an excellent result to achieve during a difficult economic climate.

Stores business for 2010/11 showed turnover of just over £37m, an increase of 3.84% and, as in 2009/10, largely consisting of increased sales to non-Member customers.

Growth in Direct orders, which are those orders placed by the organisation on behalf of customers, results in a significant increase of 14.98% at almost £60m.

Period Contracts, which are mainly call-off framework contracts, increase slightly by 1.47% from £330.9m to £335.7m.

Contracts placed by our two Strategic Procurement and Commissioning buying groups for "one-off" projects exceed £113m, an increase on last year of 12.37%.

TRADING RESULTS

The chart below provides a detailed analysis of the trading results compared to the previous year.

Annual Turnover Statistics 2010/11

	Stores		Direct Orders		Period Contracts		Strategic Procurement and Commissioning	
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
CAMBRIDGESHIRE	2,621	2,641	2,301	1,790	22,910	24,888	4,945	7,460
LEICESTER CITY	2,451	2,542	3,776	3,040	45,950	43,050	1,180	2,590
LEICESTERSHIRE	3,084	2,986	2,112	1,980	55,912	52,871	47,999	21,006
LINCOLNSHIRE	3,298	3,123	1,345	1,089	22,190	18,615	1,343	490
NORFOLK	3,946	3,933	6,210	4,103	46,909	46,811	3,930	32,219
PETERBOROUGH CITY	783	900	368	383	8,230	7,417	0	0
WARWICKSHIRE	2,350	2,457	1,826	1,450	20,795	18,473	8,316	5,688
District Councils								
Cambridgeshire	109	90	2,878	974	5,845	5,516	11,455	22,620
Leicestershire	83	78	335	864	6,987	6,516	0	0
Lincolnshire	116	130	464	557	6,148	5,350	0	0
Norfolk	77	72	48	848	8,606	7,219	5,340	0
Warwickshire	24	28	501	153	2,183	2,783	0	0
Other Users	16,708	18,039	29,929	42,667	78,234	96,266	16,346	21,260
TOTAL EXPENDITURE	35,650	37,019	52,093	59,898	330,899	335,775	100,854	113,333
% Variance Over Previous Year	8.31	3.84	16.48	14.98	-2.14	1.47	-8.70	12.37

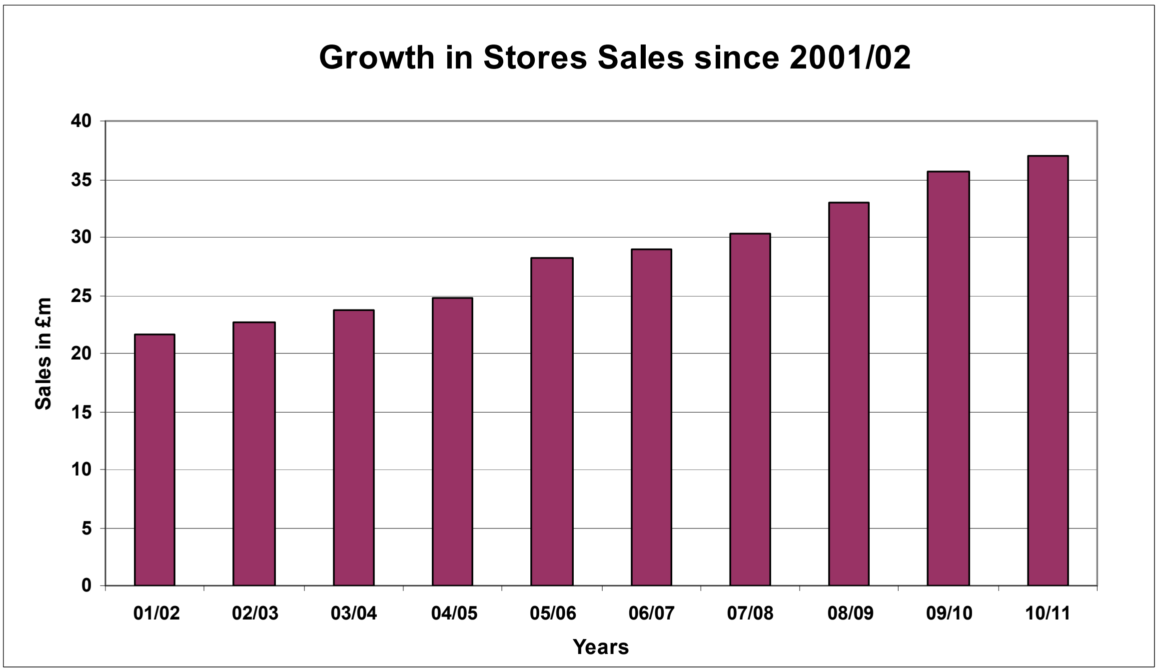
The following chart details the same statistics but provides a clearer picture of the total trading position under the four main methods of procurement within our Member Authorities:

		Turnover		Variance
		2009/10	2010/11	
		£000s	£000s	%
Cambridgeshire	Stores	2,621	2,641	0.76
	Directs	2,301	1,790	-22.21
	Period Contracts	22,910	24,888	8.63
	Commissioning	4,945	7,460	50.86
	Total	32,777	36,779	12.21
Leicester City	Stores	2,451	2,542	3.71
	Directs	3,776	3,040	-19.49
	Period Contracts	45,950	43,050	-6.31
	Commissioning	1180	2590	119.49
	Total	53,357	51,222	-4.00
Leicestershire	Stores	3,084	2,986	-3.18
	Directs	2,112	1,980	-6.25
	Period Contracts	55,912	52,871	-5.44
	Commissioning	47,999	21,006	-56.24
	Total	109,107	78,843	-27.74
Lincolnshire	Stores	3,298	3,123	-5.31
	Directs	1,345	1,089	-19.03
	Period Contracts	22,190	18,615	-16.11
	Commissioning	1343	490	-63.51
	Total	28,176	23,317	-17.25
Norfolk	Stores	3,946	3,933	-0.33
	Directs	6,210	4,103	-33.93
	Period Contracts	46,909	46,811	-0.21
	Commissioning	3,930	32,219	719.82
	Total	60,995	87,066	42.74
Peterborough	Stores	783	900	14.94
	Directs	368	383	4.08
	Period Contracts	8,230	7,417	-9.88
	Commissioning	0	0	0.00
	Total	9,381	8,700	-7.26
Warwickshire	Stores	2,350	2,457	4.55
	Directs	1,826	1,450	-20.59
	Period Contracts	20,795	18,473	-11.17
	Commissioning	8316	5688	-31.60
	Total	33,287	28,068	-15.68
	Sub-Total Member Authorities	327,080	313,995	-4.00
Districts & Others	Total	139,925	232,030	65.82
	Grand Total	**467,005**	**546,025**	**16.92**

Stores

Stores sales of just over £37m, an increase of 3.84% on last year, was a more than satisfactory result, especially when taking into account the difficult economic climate both members and non-members had experienced over the past twelve months.

The growth in Stores sales over the last ten years is illustrated in the following chart:



% Growth	6.5%	2.9%	6.1%	4.72%	13.04%	3.8%	2.86%	8.0%	8.31%	3.84%

Stores Prices

The chart below illustrates the price inflation for items held within Stores since 2001/02. The increase of 4.6% for 2009/10 was due, as reported at the time, to oil and paper price increases plus the exchange rate of Sterling against the Euro/Dollar.

01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
2.15%	- 2.02%	- 1.23%	-0.35%	-0.18%	0.95%	1.66%	0.75%	4.6%	2.34%

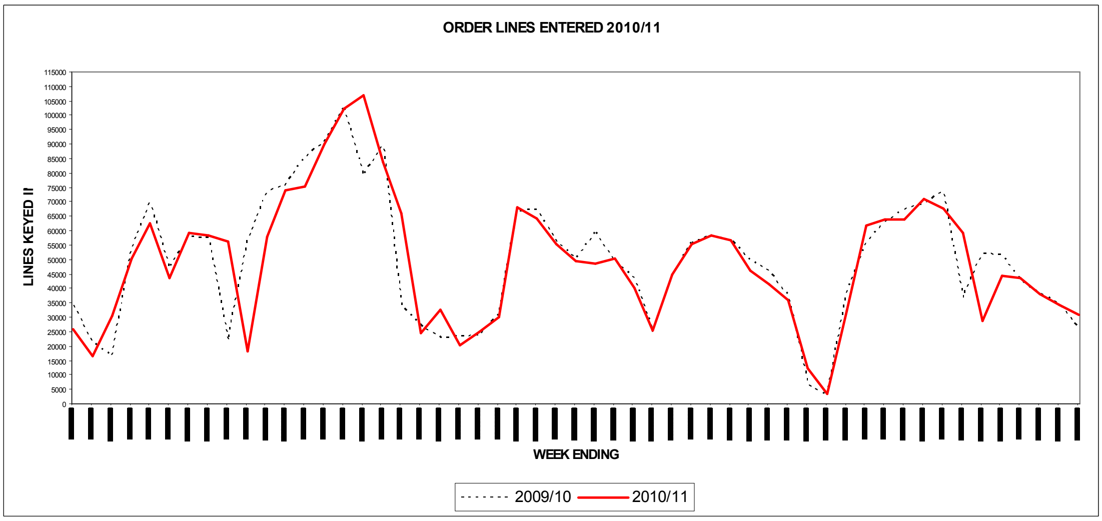
Service Levels to Customers (Stock Availability)

ESPO consistently exceeds its target of 98% for stock availability throughout 2010/11. During the summer 'peak' of orders received from schools, the percentage availability dropped to 96% for one week and then recovered to 98% plus, over the next four weeks.

Another minor variance around December occurred when salt supplies were affecting stock availability performance due to the severe adverse weather conditions. This lasted for about six weeks and was entirely due to the salt supply restrictions imposed by the Highways Agency.

If salt is removed from the equation, ESPO's overall performance was above target.

The graph below denotes the Stores order input figure (volume not value) for 2010/11, which reflects significant peaks and troughs, a feature of schools' ordering pattern.



Direct Orders

Sales via Direct orders rose from £52.093m to £59.898m with notable increases in Norfolk and Leicestershire District Councils. However, the most significant increase was in the non-member sector which rose from £29.929m in 2009/10 to £42.667m in 2010/11. This was mainly attributable to a large order for specialist vehicles of £17m for a customer in the North West.

Period Contracts

There were no significant variances in period contracts across the membership. The most significant increase, as with Direct orders, was in Other Users which showed an increase from £78.234m in 2009/10 to £96.266m in 2010/11. A large proportion of this, over £14.645m, could be attributed to the use of the Temporary Staffing contract, and just over £10m on the Pro5 contract for

Outdoor Playground Equipment. Almost £9m could be attributed to Other Users participating in the Energy Section's Auto and Heating Oils contract.

Commissioning/Consultancy

Examples of the contracts which comprise the £113.333m are as follows:

1. A five year contract for a Schools Management Information System for Norfolk County Council with a total value of £11m.

2. A five year contract for a Planned and Preventative Maintenance contract for Cambridgeshire County Council with a value of £22.5m.

3. A four year National Framework for Estates Consultancy Services with a total value of £2m.

4. A five year contract for the transfer of Residential Homes for Older People into the independent sector with a total value of £10m.

5. A four year framework contract for CCTV Maintenance for district councils in Cambridgeshire and Suffolk with a total value of £2m.

In total twenty five strategic projects were completed in 2010/11 compared with sixty five in 2009/10. Although the number of projects in 2010/11 was lower, the value in terms of the expenditure against the resultant contracts was higher than the preceding year. There are currently forty nine projects representing work in Progress.

Annual Expenditure per 1000 Head of Population

The chart below shows the annual expenditure per 1000 head of population for ESPO's seven Member Authorities for the year:

Member Authority	Population	Central Stores		Direct Orders		Period Contracts		Strategic Procurement and Commissioning	
		2009-10 £	2010-11 £	2009-10 £	2010-11 £	2009-10 £	2010-11 £	2009-10 £	2010-11 £
Cambridgeshire	552,655	4,743	4,779	4,164	3,239	41,454	45,034	8,948	13,498
Leicester City	279,923	8,756	9,081	13,489	10,860	164,152	153,792	4,215	9,253
Leicestershire	609,579	5,059	4,898	3,465	3,248	91,722	86,734	78,741	34,460
Lincolnshire	646,646	5,100	4,830	2,080	1,684	34,316	28,787	2,077	758
Norfolk	796,733	4,953	4,936	7,794	5,150	58,877	58,754	4,933	40,439
Peterborough	156,060	5,017	5,767	2,358	2,454	52,736	47,527	0	0
Warwickshire	505,885	4,645	4,857	3,610	2,866	41,106	36,516	16,439	11,244

(Population based on 2001 Census)

Marketing Activity

The national procurement landscape is the primary driver for much of ESPO's strategic marketing, which tends to concentrate on contracting and framework contracts rather than product-based marketing activity.

In particular, the continued development of Pro5[1] and the roll out of national frameworks highlights the need for more collaborative working by the members of Pro5. This includes the profiling and marketing of the national framework and contract solutions which can be found on both the ESPO and Pro5 websites.

The Corporate Account Manager role, introduced in 2009 primarily to ensure ESPO's national framework contracts are appropriately featured and promoted to non-school customers, is proving successful. Further consideration will be given to this role with Pro5 and the national picture firmly in mind.

The education sector (pre-school through to further education) has been the dominant customer sector for ESPO and its catalogue business. Since the formation of the Consortium in 1981 the education sector has represented between 75% and 80% of catalogue product sales. Every other year since 1990 through an independent market research company, a market survey is undertaken into customer perceptions of ESPO within the education sector. The survey tests customer perceptions of ESPO within the education sector, schools and colleges, through its range of products, services, prices and the general buying experience. Many of the service and product developments have originated from the results of this work. The key outcome was that 99% of member area schools, and 95% of non member area schools consider ESPO to be an impartial purchasing resource. Furthermore 85% of member and 87% of non member area schools say ESPO prices are excellent/competitive. As per previous surveys we again intend to use the finds to improve our service offering to schools.

Exhibitions and Events

During the year ESPO features at a number of events and exhibitions. The vast majority from an ESPO marketing perspective but the *SOPO Conference and the *Procurex Conference are both national events and as such Pro5 were represented with ESPO providing staffing and resource along with the other Pro5 members.

Events included:
Business Managers Conference - Norfolk
Eco Conference - Norfolk

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[1] Pro5 consists of Central Buying Consortium (CBC), ESPO, North Eastern Purchasing Organisation (NEPO), West Mercia Supplies (WMS) and Yorkshire Purchasing Organisation (YPO). Further information is available from www.espo.org

Meet the Buyer - Norfolk
SOPO Conference – Brighton*
Procurex Conference – Birmingham*
Maths Conference - Northamptonshire
Primary Heads Conference - Leicestershire
Foundation Base Exhibition - Leicestershire
Schools Showcase Exhibition - Lincolnshire
Maths Conference - Cambridgeshire
Recently Qualified Teachers Conference - Cambridgeshire
Early Years Conference - Cambridgeshire
Head Teachers Conference - Cambridgeshire
Meet the Buyers Conference - Cambridgeshire
Procurement Surgery/Training Conference - Cambridgeshire
Bursars Conference - Nottinghamshire
Bursars Conference - Warwickshire
Procurement Foundation Stage Event - Leicester City
In February 2011 ESPO was asked by the Department for Education, in partnership, to explore a national solution for Systematic Synthetic Phonics. This specialist curriculum subject (part of the Wider Literacy Scheme) was launched on the back of the DfE's Schools White Paper 'The Importance of Teaching' published in November 2010. The tenders are due back in June 2011.

Significant Matters

The main IT business systems were successfully upgraded during the year creating a new platform for further IT and systems development The impact on the business during the year included a new methodology for order placing. This new platform will enable further developments in warehouse functionality during 2011/12 including improvements in warehouse management. This will enable the introduction of handheld technology and zone picking, which will contribute to efficiency improvements in the way products are handled. Further systems development such as Customer Relationship management and material requirement planning are under consideration.

With the Coalition Government's agenda for "government to procure once", a similar ethos for local government is an obvious next stage. The Managed Services for Temporary Agency Resources (MSTAR) framework, commissioned by the Local Government Professional Services Group (LGPSG)[2] in order that local government and education establishments (as well as other wider public sector organisations) can access a national framework for Managed Services[3] for the provision of temporary agency resources, is an example of the new approach. ESPO is managing this contract on behalf of the Pro5 group of professional buying organisations and on behalf of the local government sector. The establishment of the framework is being supported by the Cabinet Office and the Department for Education as well as the LGPSG. The MSTAR framework is a complex procurement project because of the degree of collaboration involved, the aggregation of business requirements across the wider public sector and the potential value. This national framework will enable customers to identify and appoint a Managed Service Provider for their temporary staffing requirements. The framework was advertised at a value of between £2-4 b during the framework lifetime. Contract

[2] The Local Government Professional Services Group (LGPSG) is a stakeholder group representing and supporting local authorities across England in delivering savings from the procurement of professional services.

[3] 'Managed Services' means where a Supplier, known as an MSP (Managed Service Provider) takes on responsibility for managing the Customer's temporary staffing supply chain and/or resource pool.

award was made in the first week of the new financial year. MSTAR, and other frameworks currently being developed for schools and local authorities, represent a new stage in the evolving business model for ESPO.

The contracts for gas and electricity were jointly tendered with Laser, a consortium based in the south east, in a procurement project representing approximately one third of local authorities in England. Collaborative exercises were also undertaken with central government agencies. These contracts have continued to attract new clients and represent about £80m of annual delivered energy to ESPO's customers.

Against a background of the changing organisational landscape in which local authorities operate and the challenging financial landscape, it was felt appropriate for an independent review of ESPO to be undertaken. This process has incorporated an assessment of the current situation, clarifying the role of local and national public sector procurement, including the extent to which ESPO should lead. It is proposing the establishment of new working arrangements which will allow the Member Authorities to set the overall strategic direction of the Consortium and receive assurance on performance issues, whilst enabling the Director of ESPO to lead the organisation in an era of change and opportunities.
Overall, a key objective has been to enable a greater degree of co-ordination and integration of procurement activity across the Member Authorities.

Whilst the outcome of the review was not finalised by the year end Member Authorities have reinforced ESPO's remit of remaining focused on offering value, providing benefits over and above those offered by other collaborative procurement groups, internal procurement teams and commercial buying organisations. Other outcomes of the review will be progressed and implemented in the coming year.

Risk Management

ESPO needs to ensure that it not only understands its core strategic business and associated risks, but also ensures the safeguarding of its reputation, its assets, and the interest of its customers and stakeholders. This will be achieved by identifying and co-ordinating ESPO's response to all potential threats and disruptions to its business.

During 2011 ESPO has programmed to deliver an effective and practical Business Continuity Programme using BS25999, which identifies a uniform benchmark for good practice using a five stage business continuity lifecycle.

The introduction of such a robust business continuity programme will ensure that ESPO will recover from any disruption with minimal impact on employees, clients, and the reputation of the organisation and will be able to provide resilience assurance to its customers.

Improved management of operational risk is being implemented using a business case methodology and a project planning process. The objectives of this new process are to:

- enable forward planning in terms of resources and timing;
- assess and monitor budget implications in terms of costs and revenues;
- enable outcomes to be reviewed and learning achieved;
- evaluate potential risks of individual projects and consider actions to mitigate.

The business case process is intended to be both challenging and open to scrutiny by Member Authorities. Timetabling will be managed by a new Compliance Division through a project planning methodology. Compliance will be responsible for legal, procedural and compliance methodologies and will 'manage' project planning to ensure OJEU compliance and delivery of on time tender approval.

Any identification of abnormal risk, over and above normal project risk, either through procurement complexity, value, or other identified risk, will be escalated and managed by ESPO's senior management team. Significant project risk will be referred to the Management Committee for decision.

Staffing

In reporting another successful year it is important to recognise the contribution and dedication of ESPO's staff. Fifty of our staff, (14% of all staff) have worked with the organisation for more than twenty years, and a further 28% have been with ESPO for more than ten years. In the challenging environment in which we work staff commitment is an important contribution to ESPO's success. In our thirtieth year we should particularly recognise and salute the staff who have been with ESPO from the beginning. So to Jane, Bryan, Derek, and William and in particular a special mention must be made of Linda and Gordon, who have worked for Leicestershire and ESPO for more than forty years each, thank you.

ANALYSIS OF STAFF

		2009/10		2010/11	
DIRECTOR/INTERIM (HALF-YEAR)		1.0		1.0	
	SUPPORT	2.0	3.0	2.0	3.0
STRATEGIC DIVISION					
	DIVISION HEAD	1.0		0.6	
	BUYERS	26.5		27.4	
	TRAINEE BUYERS	1.0		3.0	
	CONTRACTS ADMIN OFFICER	1.0		1.0	
	ADMIN & CLERICAL *	18.5	48.0	19.3	51.3
COMMODITY DIVISION					
	DIVISION HEAD	1.0		1.0	
	SALES/MAJOR ACCTS MGR	1.0		1.0	
	BUYERS	20.0		20.0	
	TRAINEE BUYERS	2.0		1.0	
	EXPEDITING/DIRECT DELIVERIES	6.0		7.6	
	FIELD SALES EXECUTIVES	8.7		10.7	
	CATALOGUE PRODUCTION	8.0		9.0	
	ADMINISTRATION ASSISTANTS	11.0		12.0	
	CUSTOMER SERVICES *	19.5	77.2	21.3	82.6
FINANCE DIVISION					
	DIVISION HEAD	1.0	1.0	1.0	1.0
ACCOUNTS/ADMIN					
	ACCOUNTANTS	2.0		2.0	
	FINANCE SUPERVISORS	3.0		3.0	
	FINANCE ASSISTANTS	18.8	23.8	17.9	22.9
IT SECTION					
	MANAGER	1.0		1.0	
	DEPUTY MANAGER	1.0		1.0	
	TECHNICAL SPECIALISTS/ANALYSTS	1.0		1.0	
	HELPDESK/OPERATIONS SUPPORT	2.0	5.0	2.0	5.0
OPERATIONS DIVISION					
	DIVISION HEAD	1.0		1.0	
	PERSONNEL & TRAINING	2.0		2.0	
	POST/RECEPTION	1.7	4.7	1.7	4.7
WAREHOUSE AND DISTRIBUTION					
	WAREHOUSE MANAGER	1.0		1.0	
	SUPERVISORY	4.0		4.0	
	SECTION LEADERS	13.0		12.0	
	DELIVERY DRIVERS ++ ~	43.0		46.0	
	SELECTORS ++ *	85.1		76.2	
	FORKTRUCK DRIVERS/GOODS IN ++	11.0		12.0	
	GOODS OUT	11.0		11.6	
	HOUSEKEEPERS/HANDYMAN *	8.6	176.7	8.6	171.4
WAREHOUSE SUPPORT					
	SUPERVISORY	1.0		1	
	PROJECTS, TRAINING, QUAL CONTROL, STOCK AUDIT	9.0		7	
	TRANSPORT PLANNING*	5.7	13.7	4.7	12.7
* Inc part-time staff expressed as full time equivalents					
++ Based on range of May & Nov figures					
Excludes short term temporary/agency staff			353.1		354.6
~ Includes additional delivery drivers based in Wales					