

Four Year Business Strategy

2014-2018

“Planning Our Future”

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Executive Summary

In planning ESPO's future direction, there are two key planning processes required to support the principles underpinning the ESPO governance and risk framework, which are ESPO's Business Strategy and the Medium Term Financial Strategy (MTFS).

The previous strategy was written to consider the critical challenges of that period and the key objectives for the organisation in order to progress. These included the retirement of the Director and a number of members of the Senior Management Team, and the need to create more formal risk management procedures in the organisation.

The outcomes of that strategy were:

- To put in place robust management to understand risk and take advantage of new opportunities;
- To put in place fundamental management processes which were needed to allow the business to continue to grow and protect it from competitor and supplier challenge.

The previous strategy covered the period 2012-2016. These actions are well progressed, a new senior management team has been installed, and firm foundations laid to move onto the next stage of ESPO's development.

In setting out the refreshed business strategy for 2014-2018, ESPO will now build up on these foundations, and has considered the current dynamic environment that our Members and customers are experiencing within the public sector.

Given the dynamic environment that we now operate in, it is critical that ESPO is alert to the challenging demands on our Members, and appreciates that their needs are evolving. To this end, ESPO is in a position to respond flexibly should it be called to do so.

The challenges facing ESPO and its members are considerable, and now require more of an external focus than has been needed over recent years.

Development of the 2014-2018 strategy has involved:

- Analysing the external environment including changes in the public sector landscape, the competitive environment and factors that are challenging through the impact of changes in social, technological, economic, environmental, political, and legal factors;
- Further understanding ESPO's culture through an All Staff Survey and understanding how this will impact the business strategy. Also, reviewing ESPO's current resources, capabilities, and competencies;

- Analysing the current and potential procurement activities, and the warehousing and logistics activities of ESPO.

The public sector in the UK is facing a number of significant challenges in terms of local authorities being required to deliver increasing levels of efficiency savings through transformational change and becoming strategic commissioning bodies, making high-level decisions for their local communities, rather than always directly providing services.

The focus on risk management as laid down in the preceding strategy is now well embedded within the organisation and will continue to evolve. Risk management processes are key within both the procurement and the warehousing divisions of ESPO, and importantly as a tool through which the Senior Management Team (SMT) considers the organisation and aligns appropriate resources and effort accordingly.

In anticipating members and customers' needs, ESPO continues to progress its investment in technology to deliver its business solutions, and seeks to seize the commercial opportunities that it pursues, and also those which arise.

The governance arrangements as agreed by the Management Committee will continue to be observed, and the draft Consortium agreement and the associated constitution will be followed accordingly following its expected adoption in 2014.

ESPO's Mission Statement and Vision are as follows:

- Our Mission is 'To work in partnership with our stakeholders to drive Value-for-Money for the Public Sector, through comprehensive procurement solutions'.
- Our Vision is 'To be the first choice provider of Public Sector procurement solutions'.

In considering the challenges over the forthcoming four years, there are six strategic planks to be pursued. These are our strategies for Customer, Procurement and Compliance, Operations, Our People, Enablers (Finance and IT), and Continuous Improvement (key change projects required within the business in order to make progress).

The customer strategy recognises that we need to focus our expertise based on Members' needs and those of our core customers. ESPO will continue to prioritise the pressing needs of its customer base, and develop solutions which demonstrate Value for Money.

ESPO's business over the past few years has moved from being purely a catalogue business and a procurer of goods to the comprehensive procurement of goods and services for the public sector. In developing this further, ESPO will need to engage more with the providers/suppliers, clients and customers, collate the data gleaned, and interpret such information into intelligence about specific

markets, and then use this to develop our knowledge to give advice and support to clients, thus improving the benefits of better procurement.

ESPO's customer strategy has four key strands stretching across the common customer base of both of the key divisions. The four priorities are:

- Protecting our core business and customer retention;
- Extending uptake of existing product range to existing customers;
- Expanding our customer geography with our existing offering; and finally
- Looking to new areas of business (both customers and product range) that we can readily adapt to, or require in order to ensure a strong customer base in the future.

ESPO's procurement and compliance strategy agenda will be characterised differently to the efficiency and growth agenda of our catalogue and stores operation. The demonstrable value to Members is in the range and quality of our procurement activities be that framework agreements or public contracts. The Member rebate is very small in comparison to the cost and risk avoidance Members enjoy from using ESPO, as well the contract savings themselves as a consequence of ESPO growing its reputation for 'good procurement'.

That said, the function must continue to be commercially positioned to contribute to delivery against wider ESPO policies of a flat cost line with a growing income line as a proxy measure for engagement in our procurement offering.

The 2014-2018 work programme includes an external focus, a programme of work to include continued efforts behind collaboration and extended use of ESPO's procurement solutions, a focus on training internal and member professional staff, and using our strength participate in shaping the National Procurement Strategy for Local Government. It also includes an internal focus, a programme of work invests in the appropriate level of resource and skills to deliver the desired procurement outcomes, continued attention to evolving and embedding ESPO's risk management processes and procedures including the development of a formal Risk Strategy. Further to this, we will invest in technology including e-tendering, GEMS replacement energy system, ISYS time management system, and critically an investment in Spend Analytics from a member perspective.

ESPO's operational strategy is to provide an efficient and scalable supply chain capable of delivering products to its customers, on-time and in-full. To ensure that ESPO continues to meet customer requirements now and into the future, it will need to develop its logistics capability. This action plan sets out the direction of travel and highlights the improvements that are needed to deliver the strategy. This will ensure that we deliver Value for Money through an efficient service.

The 2014-2018 work programme includes an external focus, a programme of work to include a review of the warehouse operations and the logistics

arrangements, followed by implementation of proposed changes. It also includes an internal focus, a programme of work invests in the appropriate level of resource and skills to deliver the desired customer focussed outcomes. The commitment to investment in technology includes the stock ordering system, and the RDT (Radio Data Terminal) system, with a view to continued warehouse automation, and an ability to transact with our customers electronically. Further to this, using intelligence to inform our customer promise in terms of order frequency, order value, and delivery frequency will further shape how we accommodate our customer demands.

The delivery of ESPO's people strategy will be realised as staff are further developed and coordinated to enable ESPO's strategic priorities to be delivered. ESPO needs to ensure that both the numbers of staff and their capabilities meet the future demands on the business.

To strengthen the organisation's capability to enable the business outcomes to be achieved in the future, the workforce needs the required skill sets to be developed. It is intended to ensure the right people with the right skills at the right time and cost are available to meet the changing demands of our customers and deliver the required business outcomes.

ESPO undertook a staff survey in 2013, which was well supported and insightful. This has been used as a basis for an ESPO organisational development plan structured around the following key themes:

- Communication
- Reward and recognition
- Learning and development
- Management and leadership
- Investment in kit and resources to achieve customer outcomes
- Brand update

The financial strategy supports the stated objective of ESPO to provide value for money for its users and to grow the net worth of the organisation. Inherent in that strategy is to drive headline growth, seek further efficiencies in the cost base (allowing growth with no further net investment), and to provide an appropriate return for members relative to the risks they take.

Key financial hallmarks of the strategy over the next four years are as follows:

- ESPO commitment to value for money, the organisation's main objective;
- Clear focus on achieving cost efficiencies, being transferred into business growth initiatives and sustained lower prices;
- Secure and adapt to maintain core business;
- Grow Stores volume by 20% through competitive pricing and outstanding service;
- Maintain rebate income through increased numbers of frameworks offset by pressure on rebate margins;

- Develop staff capabilities and new skill sets;
- Expand the services offered to customers thus broadening the offering and hence the customer base;
- Spread the benefit of ESPO to all users in the form of competitive pricing;
- A fair return to members relative to the risk they take;
- Grow the net worth of the business;
- Minimise risk and maximise opportunities by growing ESPO capability and unique skills.

As a result of the pricing and volume strategy, the trading surplus is forecast to rise from £2.1m in 2013/2014 to at least £3.0m in 2017/2018 and beyond. Of this, 80% will be returned to Members which will mean that over the four-year period, over £6.9m is targeted to be paid as dividends to the Members of the consortium.

Members have clearly stated that a dividend is not the principal reason for being a part of the consortium. A target of 3.5% return on capital has been set but ESPO will need to achieve more than this if it is to maintain sufficient working capital, asset and resource replacement, and contingency funding.

The continuous improvement programme is seen as a means of delivering key change projects which are required to deliver the business strategy. We will move away from focussing on lists of small tasks to a programme focussed on business priorities. These will be aligned to the strategic priorities of the organisation.

The top eight key change projects are as follows:

The continuous improvement programme is led by a programme director supported by project managers to coordinate the activity. We currently draw upon resource from the Leicestershire County Council support team to deliver this.

The programme will look to mapping the organisation's key processes and stakeholders including management committee, customers, suppliers, staff, and unions. The European Foundation for Quality Management (EFQM) methodology provides a proven means of engaging with stakeholders and a project governance framework.

Using the business case approval process, the projects will be sponsored with all investments being fully supported by a business case and rigorous analysis before being enshrined in the project plan, and the annual budget. Operations and Finance within ESPO will work closely together to ensure mutual understanding of all costs and business benefits.

The four-year business strategy presents an understanding of ESPO's Member and customer requirements, an according growth plan, and a realistic approach to the finances required to achieve these ambitions.

The unique combination of ESPO being derived from a service-led organisation, but needing to survive in an increasingly aggressive commercial market makes this a very challenging period that we are embarking upon. I believe, with this management team and financial investment, we are capable of responding to these challenges.

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Introduction

This document describes ESPO's environment and how ESPO will respond.

ESPO will build up on the foundations of the existing business, and has considered the current dynamic environment that our Members and customers are experiencing within the public sector.

The public sector in the UK is facing a number of significant changes in terms of local authorities delivering increasing levels of efficiency savings through transformational change and becoming strategic commissioning bodies, making high-level decisions for their local communities, rather than always directly providing services.

The apparent conflict between localism (driving national economic growth and the local/SME agendas) and the drive for savings through larger contracts ('buy once', standardisation of specifications and value through aggregation) presents challenges for the public sector, and specifically for ESPO. At the same time, schools are converting to academies, bringing them financial independence, and Clinical Commissioning Groups are set to take on responsibility for commissioning health and care services from the Primary Care Trusts.

Generally, the environment outlined above represents some of the challenges which ESPO is uniquely positioned to respond to on behalf of its broad base of stakeholders. This document sets out a strategic framework that will help guide our business planning for the next four years.

The public sector in the UK is facing a number of significant challenges in terms of:

- Year-on-year reduction in spend. Recent CSR announcements continue to set out further reductions in Local Authority and wider public sector funding, whilst still being expected to support core services.
- Striving to support economic growth through stimulating local economies and in particular small and medium sized enterprises whilst needing to achieve savings through collaboration ('buy once', standardisation of specifications).
- Empowering local communities and encouraging the growth of the third sector through supporting volunteering and charities.
- Continuing to address environmental concerns, improving recycling rates, reducing waste and carbon emissions and the environmental impact of goods, works and services bought.

As guided by its owners, and as a public sector buying organisation, ESPO has been organised to contribute towards these issues by setting out to:

- Demonstrate Value for Money (VfM) through the provision of a wide range of consumable products at competitive prices and delivered to customers to a consistently high service level;
- Further demonstrate VfM through a comprehensive range of framework solutions and procurement services, and insights into Members' procurement decisions to further inform their strategic agendas such as SMEs. In doing so, enabling customers to access services at competitive prices, knowing that they have been procured compliantly. A further customer benefit is not having to engage their workforce to achieve the same.
- Represent procurement views to the government and others on matters affecting the interests of our stakeholders (Energy, ICT, Professional Services Categories and participating in the creation of the Local Government National Procurement Strategy);
- Collaborate where commercially wise to do so, to enable customers to take advantage of the best procurement opportunities available;
- Operate a culture derived from the blend of public and private sector commercial skills and the public sector ethos of transparency, equality and fairness.

In seeking to respond to these and other challenges, ESPO will adopt a fresh approach to Continuous Improvement as it also faces mounting challenges from an evolving competitive landscape set out as follows:

- Changes in the procurement landscape including procurement legislation, and increasingly disaffected suppliers willing to formally challenge the decisions of evaluation processes, have heightened the need for ESPO to be even more risk aware.
- Increasingly competitive offerings from Crown Commercial Services (previously Government Procurement Services) and other Public Buying Organisations across all areas of ESPO's current offering, both consumables and procurement solutions.
- Private sector suppliers (new and existing) aggressively mounting their activity within the schools (academies) sector, with a focus on price and service. From a customer perspective this 'raises the bar' from the 'County Supplies' expectations which have gone before.

- Technology within the market is rapidly moving towards e-commerce and similar ways of supporting business processes, which brings opportunities to operate more efficiently, and compete more effectively.
- Further challenges have been identified through an external environment analysis, and represented through the SWOT and STEPE analyses set out in Appendices 7 and 8).

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ESPO Background

Eastern Shires Purchasing Organisation (ESPO) is the UK's largest public sector professional buying organisation currently with 350 employees, circa 500 procurement solutions and financial turnover/throughput of £750m. We provide a comprehensive procurement service to enable customers to acquire a wide range of products and services at the best possible price in compliance with current UK and EU procurement rules and regulations. ESPO operates as a Local Government Joint Committee on a self-financing basis and is committed to delivering best value to its Members, customers, and the local community. ESPO was established in 1981 to provide a comprehensive procurement service to its Member Authorities, which expanded over time. Leicestershire County Council is the Servicing Authority and ESPO will, where possible, align itself to relevant policies, procedures, and financial regulations of the Servicing Authority.

ESPO's customer base has traditionally been made up primarily of the education sector and local authorities within the boundaries of the founding Member Authority areas. However, recent years has seen strong growth outside of these areas and core customer groups. Consolidating this customer base, and planning the future around stretch in products to the core customer group, geographic growth to the same customer type, and targeting new public sector customer groups form the core planks of our growth strategy.

ESPO operates from a 120,000 square foot distribution facility in Leicestershire, where more than 350 staff are employed to provide customers with an efficient consumables supplies service and a suite of compliant procurement solutions, as well as a technical procurement operation.

Our purpose is to deliver Value for Money to our customers by offering leading procurement solutions - more choice, higher quality and excellent value.

In 2006, ESPO became a member of the Pro5 collaborative procurement group and has been the lead authority on the majority of national procurement projects such as Advertising and Recruitment Services, Playground Equipment, ICT, Temporary Staffing (MSTAR) and Consultancy. ESPO has also participated in collaborations with Crown Commercial Services (CCS), formerly Government Procurement Service (GPS), to drive further value for public sector consumers.

ESPO's commercial knowledge, operating capability, market insight, category expertise and best practice sourcing are key attributes that enable us to respond quickly and effectively to the changing dynamics of demand within the public sector. To ensure that we maintain our leading position in this market, we proactively collaborate with customers and other partners to engage markets,

challenge current practices and develop innovative new commissioning and sourcing strategies, when this makes commercial sense to do so.

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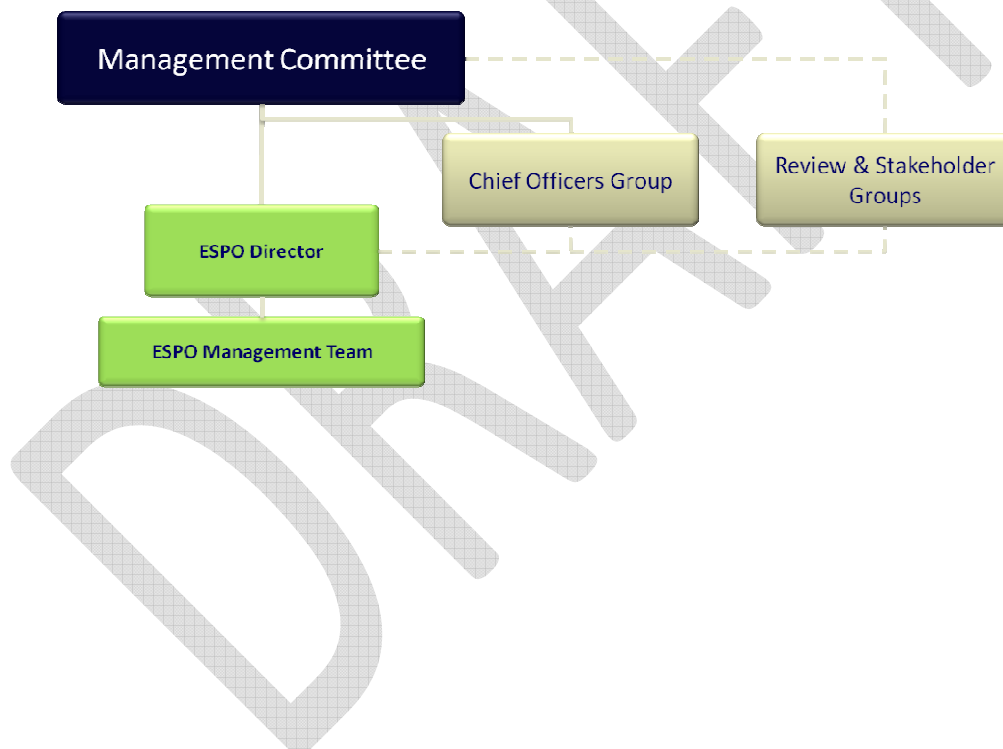
Ownership and Governance

ESPO will continue to work with the Member Authorities to ensure the effective implementation and embedding of the Governance Framework and help to ensure these remain appropriate for the future.

ESPO's management and governance procedures will be robust and transparent and ensure the effective and efficient delivery of the agreed strategic outcomes and objectives.

Although not part of the Governance structure, there is a Senior Officer Group in place which will act in an advisory capacity to the Chief Officer Group. ESPO's governance model has been designed to ensure that there is:

- Transparency of decision making;
- Rigour of risk management and financial control;
- On-going assessment of ESPO's value to the Consortium Authorities;
- Ease of decision making.



Our Mission, Vision and Values

Our Mission

ESPO is a local authority purchasing consortium. Our purpose is to deliver Value for Money (VfM) to all our customers and other client bodies by offering leading procurement solutions, more choice, higher quality and best value.

We do this through offering a comprehensive, cost effective contracting and procurement service, covering a diverse range of commodities, products and services, and a full procurement consultancy, aimed at assisting clients with complex procurement projects.

The Mission Statement is set out as:

'To work in partnership with our stakeholders to drive Value-for-Money for the Public Sector, through comprehensive procurement solutions'

VfM services will be achieved by ensuring a competitive offering is delivered primarily by ESPO or through collaboration where it is recognised that occasionally others are better placed to achieve those outcomes. Achieving competitiveness will be delivered through an absolute focus on the customer, improved operational efficiencies, and by working closer with our supply chains.

ESPO's objective is to demonstrate its ability to deliver VfM services to our customers. In doing this, we must ensure that our Member Authorities achieve a reward commensurate with the risk they share as ultimate funders of ESPO.

In return for their stake in ESPO, Members receive 3.5% return on capital. ESPO will also target an annual surplus of circa £2m to ensure sufficient working capital, asset and resource replacement, contingency funding, and that a dividend is maintained.

Both risk and performance management are an integral part of day-to-day operations. Risk management at ESPO is monitored and reviewed through a compliance process featuring a business case methodology and a risk strategy which is managed through the senior management team to the ESPO Management Committee.

Our Vision

ESPO operates across Local Government and the wider public sector in the UK, providing a comprehensive and cost effective procurement service for local authorities, schools and academies, voluntary and community organisations, charities and beyond. We fully embrace the needs of our Member Authorities and our customers and their economic, social and environmental requirements are the prime considerations when developing our procurement solutions. Further to this, ESPO has an obvious role to play in helping resolve critical financial challenges currently faced by the broader public sector.

Our Vision is:

'To be the first choice provider of Public Sector procurement solutions'

We will achieve this by bringing together a mix of commercialism, market insight, category expertise, and best practice sourcing. ESPO will work with all of its stakeholders, to engage markets and thereby achieve optimum outcomes for the benefit of its customers. ESPO will proactively challenge current practice, serving as a focal point for collaboration (where commercially sensible), bringing leadership and articulating new commissioning and sourcing strategies. We are committed to a programme of Continuous Improvement in our own operations as we seek to be the purchasing agent of choice in the local government/public sector.

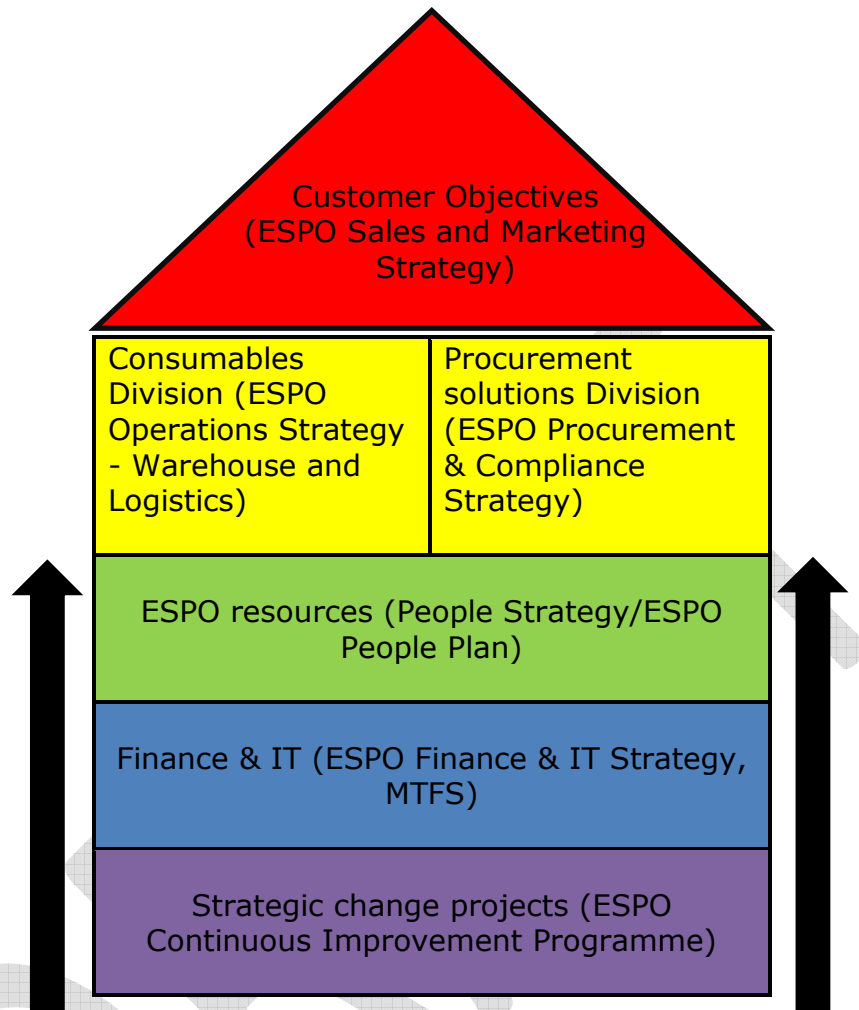
Our Values

ESPO's Core Values are that we will:

- Be customer focussed
- Be commercial
- Strive to develop and continually improve
- Be positive
- Exceed expectations
- Be flexible
- Work together

These values feature in every Performance Development Review (PDR) within ESPO. As well as our PDRs setting out real measureable targets, it is also important for us to be true to our values as an organisation.

Strategic Planning Approach



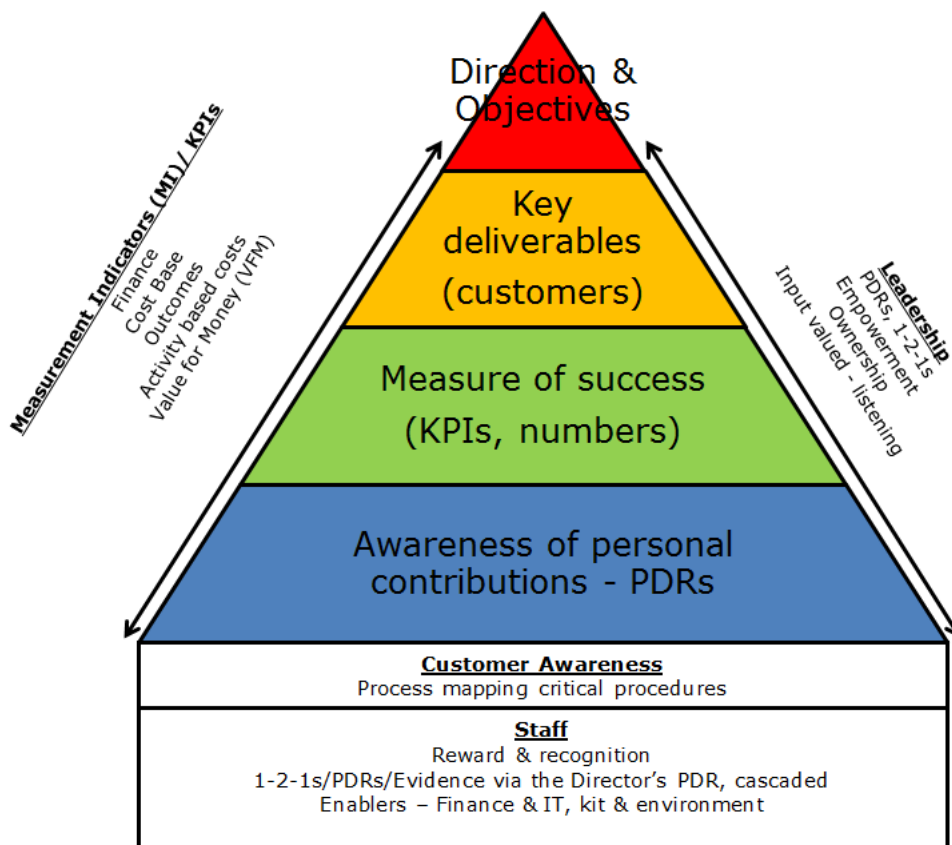
In planning our strategy, the Senior Management Team (SMT) has approached its planning in developing six core strategies for the organisation. By starting with the customer objectives, this then allows the two key functions of ESPO to plan their direction to both support the delivery of customers' needs and also to set out a direction for their function which will be sympathetic to challenges facing the customer groups.

In doing so, we will inform the expectations we have of our staff, the level of resource and skills required to succeed. Critical to this, we must also ensure that we create the desired 'ESPO environment' for them to do this which will be a fair environment where staff feel duly rewarded and recognised for their contributions.

To enable this, we will ensure through the Medium Term Financial Strategy (MTFS) that we have the right resources in place to succeed with regards to finance and IT. The MTFS will not only set out the shape of the business for the next four years, but allow for the right investment in the organisation to take place. The MTFS outlines the ambition for growing the net worth of the business, the shape of the profit and loss, and ultimately the return to our membership.

Finally, the agreed ambitions of the organisation will change many of the tried and tested processes within ESPO. These changes are important to the successful operation of the organisation in the environment that we have set out thus far. To this end, this change will be achieved by formalising our approach to Continuous Improvement. This will be comprised of a programme of strategic change projects, following many of the hallmarks of Prince2 methodology to project management. Each project will be sponsored by an SMT executive member, and the programme will be reported regularly to the SMT by the Programme Director.

Once our strategy and direction are agreed, the following framework will be embraced to ensure delivery. This encompasses the measurement, communication of activity, and sets out a performance environment where customer ambitions are key to success.



ESPO's Strategic Goals

1. To anticipate and respond to our customer's needs and objectives. To support our Member Authorities' strategic procurement agendas, thereby helping to resolve their financial challenges and procurement objectives.
2. To ensure that our customers see ESPO as responsive, reliable, value adding, easy to use, and competitive.
3. To expand our activities in terms of:
 - a. Consumables trading,
 - b. Provision of procurement solutions and consultancy to local authorities, the education market and the broader public sector.
4. To be famous for 'doing good procurement' - To ensure broader procurement and commissioning programmes are delivered using the commercial skills of ESPO staff by focussing on offering more choice, higher quality and best value.
5. To operate a warehouse and logistics solution which is cost efficient, capable of responding to and exceeding customer expectations, and accommodating future growth.
6. To shape and positively influence the development of procurement practice on behalf of our Members and more broadly local government through research, market analysis, training and advice.
7. To build the ESPO brand and reputation by being recognised as technically excellent in our chosen fields and a sharer of commercial knowledge within, and beyond, the public sector.
8. To create a working environment where our staff consider ESPO a good place to work.
9. To increase the net worth of the organisation, through increased income, a controlled cost base, driving efficiencies in the operation, and ensuring that both of the key operations of ESPO make a positive financial contribution to the organisation.
10. To understand and manage risk.

ESPO's 6 Core Strategies

ESPO's core strategies for the next four years are set out below:

1. ESPO Sales and Marketing Strategy (Appendix 1)

The traditional core business of the warehouse has provided ESPO not only with its growth for the first twenty years of the organisation's life but also provides a constant and predictable cash flow through which it provides stability to the overall organisation. Although it may be a mature business, there are still opportunities to grow the sales volume, particularly to the education sector, enabling greater efficiencies in both procurement and operations.

ESPO's business over the past decade has moved from being primarily a catalogue-based supplies business to a procurement organisation, delivering a comprehensive range of goods and procurement services for the public sector. In the warehouse operation, we will measure customer success by satisfying their orders 'on time, in full'. ESPO will seek to drive its warehouse and logistics operation much more efficiently to achieve this goal in the short term, but also to ensure we have capacity to grow further from the existing infrastructure. In the procurement operation, ESPO will need to engage further with the providers/suppliers, clients and customers, collate the data gleaned, and interpret such information into intelligence about specific markets, and then use this to develop our knowledge to give advice and support to clients, thus improving the benefits of even better procurement.

The gathering of intelligence and using this to build our knowledge will be a core capability to further enhance value to our Members. This will enable us to accommodate and respond to customer needs, as well as develop new services and solutions. Such knowledge will be difficult to be replicated by any other private sector organisation, thus putting the organisation in a strong position.

We recognise that we need to focus our expertise based on Members' needs and those of our core customers. ESPO will continue to prioritise the pressing needs of its customer base, and develop solutions which demonstrate Value for Money (VfM).

In order to become more customer focused, specification of the catalogue content has been separated from the procurement function into a merchandising function. Product content will form part of the aims and objectives of the Marketing Strategy for catalogue product sales.

The split in responsibilities supports the objective of introducing further products over the next four financial years. More research is required around:

- Product packs and packaging;
- Our pricing strategy around unit product sales and packs;
- Further development of own label products enabling customers to purchase VfM products suitably endorsed by ESPO's Smarter Buying brand.

In understanding the customer needs and working towards the customer priorities as discussed above, further ESPO activity will be informed by the following approach, with our growth priorities set in four categories. The continued financial growth of the organisation will be achieved by pursuing these customer protection and growth activities.

Marketing priority grid

- A. Retention & Protect
- B. New Customer Growth
- C. Business Development – Existing
- D. Business Development – New

<i>New</i>	<ul style="list-style-type: none"> ▪ Cross-Sell Bundles ▪ Upsell ▪ Value Range ▪ Frameworks – New ▪ Frameworks – Existing ▪ Spend Analytics 	<ul style="list-style-type: none"> ▪ Department for Education (DfE) National initiatives ▪ Academy Groups ▪ Health Trust Europe (HTE) ▪ FE/Universities/HE 	
Products & Services	C A	D B	
<i>Existing</i>	<ul style="list-style-type: none"> ▪ Retention/Loyalty Programme ▪ Customer Relationship Management (CRM) System ▪ Database Development ▪ Supply Chain Value ▪ E-Ordering ▪ Key Account Offers 	<ul style="list-style-type: none"> ▪ Geographic Growth (M5/Wales/North Home Counties) ▪ Healthcare ▪ Blue Light ▪ New Authorities ▪ MOD ▪ UK ESPO National 	
	<i>Existing</i>	Markets & Customers	<i>New</i>

- A. Retention & Protect (Protect core business)
 - a. Customer retention plan
 - b. Customer loyalty programme
- B. New Customer Growth (Grow into new geographies and customer groups)
 - a. Customer growth plan (consumables and procurement customers)
 - b. Added insights through spend analytics and insight solutions
- C. Business Development – Existing (Product range, including value ranges)
 - a. Extend new products into existing customer groups, including new procurement solutions
 - b. New product and framework development – driven through ESPO and collaborations

- c. Increased engagement in framework solutions
- d. Added insights through spend analytics and insight solutions

D. Business Development – New

- a. Exploring new relationships (e.g. Health Trust Europe) in new sectors

2. ESPO Procurement Strategy (Appendix 2)

ESPO's agenda for procurement and compliance will be characterised differently to the efficiency and growth agenda of our catalogue and stores operation. The demonstrable value to Members is in the range and quality of our procurement activities be that framework agreements or public contracts. The Member rebate is very small in comparison to the cost and risk avoidance Members enjoy from using ESPO, as well the contract savings themselves as a consequence of ESPO growing its reputation for 'good procurement'.

That said, the function must continue to be commercially positioned to contribute to deliver against wider ESPO policies of a flat cost line with a growing income line as a proxy measure for engagement in our procurement offering.

The 2014-2018 work programme can be summarised as:

External focus

- A. Ensuring customers' procurement needs continue to be at the heart of our purpose and outputs and solutions reflect this
- B. Using ESPO knowledge and insight to participate in the National Procurement landscape, being well regarded and welcomed in such debates
 - a. Reputational enhancement through active involvement at a national level through Society of Procurement Officers (SOPO) and the Local Government Association (LGA) to shape and implement national messages
 - b. Improved PR and reputation through entering awards, thought leadership and publication
- C. First in being at the forefront of all current EU procurement regulation
 - a. Supporting the cabinet office in its training agenda for public contract regulations (PCR) 2014 by having 'train the trainer' training and offering training by ESPO senior staff to four cohorts identified by Cabinet Office
 - b. Offering Members access to ESPO training partner for their own procurement training for PCR 2014
 - c. Developing a wider offering for procurement training
- D. A clear commercial basis for collaborations

- a. A documented and agreed collaborative position within Pro5 predicated distributing rebate on procurement and contracting effort (80%) wider support marketing (20%)
- b. Exploration of targeted 'franchising' collaboration e.g. across health or Blue Light services

Internal focus

- A. Ensuring customer demands are prioritised
 - a. A forward work plan for 2014 published (including a 'major procurements' programme)
 - b. Procurement category strategies authored and published
 - c. Spend analytics
- B. Ensuring all procurement process embodies ESPO's approach to risk management
 - a. Developing a risk strategy for compliance risk at ESPO
- C. Process embedding and improvement to ensure 'good procurement'
 - a. Refreshed senior structure in place of three commercial managers, commercial solicitor as Assistant Director, Procurement & Compliance direct reports (Quarter 1)
 - b. Clearer, better defined and fit for purpose legal service to support P&C activity
 - c. Provision of PCR 2014 training to staff via our appointed external training partner PP&CS Ltd
 - d. Launch of a suite of business processes and standard documentation
 - e. Continued cultural shift to raising standards, vigour and 'good procurement' model
- D. Technology advancement to enable future 'good procurement'
 - a. Implementation of Due North so as deliver an e-tendering system and functionality
 - b. Piloting of ISYS system to evidence our utilisation and cost recovery monitoring and reporting time/cost recording
 - c. Delivery of GEMS replacement project

3. ESPO Operations Strategy (Appendix 3)

ESPO's operational strategy is to provide an efficient and scalable supply chain capable of delivering products to its customers 'on time, in full'. To ensure that ESPO continues to meet customer requirements now and into the future, it needs to develop its operations and logistics capability.

The catalogue and warehouse deliver a predictable income flow and heavily support the ESPO organisation financially as well as externally the 'ESPO' brand.

The marketing strategy provides an overview of expectations of how and where ESPO's growth will be derived in terms of customers, geographical coverage, markets and pricing, which sets out a broad framework of expectations which need to be satisfied through this part of the organisation.

The investment in systems and processes in the warehouse operation will yield an advantage for the organisation as we seek to push for further growth. At this stage, it is critical that the change in approach to operating the warehouse is fully embedded, and the default mode of operation. This is changing 30 years of an accepted way of working (often by the same employees), which will contribute to the pace of change.

A key area of customer default is when key stock lines are not available. This area has been brought under the wing of operations to align the activity with the replenishment and stock movement activity.

A secondary area, due to the 'peakiness' of our customer demand, is when our operation is overwhelmed with demand and the organisation needs to respond at pace.

The 2014-2018 work programme can be summarised as follows:

External focus

Following from expectations on the customer operations as reinforced in the sales and marketing plan, a fresh drive within the organisation to operate efficiently to strive to exceed customer demand and prepare for growth will take place to include the following:

- Warehouse operational review

In seeking to manage service, the current and growing demand of existing and new customers, service levels will be considered as to how expectations can be exceeded with current geography and beyond.

- Logistics review

ESPO spends a significant sum in running and maintaining a fleet of circa 50 vehicles. The provision of this service is highly valued by ESPO customers. However, the dynamics of the operation have changed, and set to change further. The logistics solution will be considered to ensure that a solution is in place which will accommodate our future growth plans and customer profile.

Internal focus

- RDT System – full implementation to support future automation
- Service Proposition
 - Delivery Frequency – based on account spend
 - Pro-active Communication – to enable holiday deliveries
 - Next-Day Delivery Capability - to enhance offer
 - Minimum Order Quantity – as a means of cost recovery

- Staff Engagement
 - Info-Zone – information sharing area
 - Incentive Scheme – to reward excellent performance
- Management Structure – to up-skill and empower Shift Managers and Section Leaders
- Management capability: Training & Mentoring Programme – to enhance management skills
- Health & Safety – to manage health and safety obligations
- Management Control & Reporting System (MCRS) – to manage staff resource
- Transport Optimisation – to ensure optimal efficiency
- Permanent Night Shift – as a replenishment resource and support peak demand periods
- Warehouse Automation – to increase efficiency from 2015 onwards

4. ESPO People Strategy (Appendix 4)

The delivery of ESPO's strategy will be realised as staff are further developed and coordinated to enable ESPO's strategic priorities to be delivered. ESPO needs to ensure that both the numbers of staff and their capabilities meet the future demands on the business.

To strengthen the organisation's capability to enable the business outcomes to be achieved in the future, the workforce needs the required skill sets to be developed. It is intended to ensure the right people with the right skills at the right time and cost are available to meet the changing demands of our customers and deliver the required business outcomes.

Success through people

ESPO needs to achieve a positive workplace culture which will ensure a proactive and productive workforce consisting of well-motivated employees who are loyal to the organisation.

Success for ESPO's business strategy can only be realised if staff, as the key resource of the organisation, are managed and developed to enable ESPO's strategic priorities to be delivered. This will be achieved by operating in accordance with the management framework set out on Page 10 and further supported by cascading the organisation's objectives into a series of Professional Development Reviews (PDRs) from the top to the bottom of the organisation, which are then used to base constructive management conversations throughout the year and beyond.

The People Strategy has been developed around five strategic workforce themes to focus our priorities, and inform where activity is best concentrated and to generate annual delivery plans.

The themes are:

- Leadership and management capacity and capability
- Workforce learning and development

- Employee communication and engagement
- Employee reward and recognition
- Employee health and wellbeing (Facilities & Environment)

ESPO undertook a staff survey in 2013, which was well supported and insightful. This has been a critical input into an ESPO organisational development plan which aligns into the themes in the 'People Plan'. These are as follows:

- Communication
- Reward and recognition
- Learning and development
- Management and leadership
- Investment in kit and resources to achieve customer outcomes

The staff survey has provided the platform from which to have a 'conversation' with the organisation, to create a programme of work, and set a benchmark against which to measure progress.

5. ESPO Financial Strategy (Appendix 5)

Medium Term Financial Strategy (MTFS) - A commitment to delivering Value for Money (VfM) for 2014-2018

The financial strategy supports the stated objectives of ESPO to provide VfM for its users and to grow the net worth of the organisation. Inherent in that strategy are the ambitions to drive headline growth, seek further efficiencies in the cost base (allowing growth with no further net investment), and to provide an appropriate return for Members relative to the risks they take.

Key hallmarks of the financial strategy include:

- A need to demonstrate, measure, and report on VfM
- Increase the net worth of the organisation
- Control costs
- Grow top line performance
- Ensure the two core divisions independently make a financial contribution to the organisation

A key objective is the target of a further 20% growth in stores volume over the next four years. This will be supported by a pricing strategy that assumes sub inflation or minimal catalogue price increases. By keeping the cost base under tight control while at the same time driving volume through the warehouse, the organisation will be operating more efficiently and servicing the capacity for growth.

Customer engagement in our framework solutions is a critical measure of their success, which must continue to grow. Rebates are considered a financial outcome of the positive impact of strong customer engagement, as well as the supplier willingness to service the public sector needs at a fair commercial price. Rebates continue to be a key element of our profit and loss account, but the

growth ambitions have been kept constant as demand reflects the projected income of our customer base being set to fall.

As a result of the pricing and volume strategy, the trading surplus is forecast to rise from £1.5m in 2012/2013 to at least £1.9m in 2015/2016 and beyond. Of this, 80% will be returned to Members which will mean that over the four-year period, over £6m is targeted to be paid as dividends to the Members of the Consortium.

Members have clearly stated that a dividend is not the principal reason for being a part of the Consortium. A target of 3.5% return on capital has been set but ESPO will need to achieve double this if it is to maintain sufficient working capital, asset and resource replacement, and contingency funding. Therefore the target an annual surplus will be £2m.

We recognise the important part ESPO can play in this austere time for the public sector. By developing the role ESPO has between the supply side and the demand side of each chosen sector, and by strengthening our understanding of the needs of customers and capabilities of suppliers, ESPO can shape the market for the benefit of all. Therefore, it is expected that further stretch will be delivered through a renewed focus on gross margin, which will yield stronger surplus in the outer years. This will become clearer both in activities and the financial plan as the four-year period evolves.

6. ESPO Continuous Improvement Strategy (Appendix 6)

The Continuous Improvement Programme is seen as a means of delivering key change projects which are required to deliver the business strategy. We will move away from focussing on a list of small tasks, to a programme focussed on business priorities; these will be aligned to the strategic priorities of the organisation.

The delivery of the Continuous Improvement Programme will be underpinned by the European Foundation for Quality Management (EFQM) improvement ethos, using core elements of the Prince2 project methodology.

The projects included in ESPO's current strategy are as follows:

2014/2015 priorities

Project	Description	Owner
E-tendering	Due North system implementation enabling automation of procurement practices	Assistant Director, Procurement & Compliance
Spend Analytics	Understanding of Member-level spend and identify use of frameworks by partners	Assistant Director, Procurement & Compliance
Warehouse & Logistics Review	Transport model & labour productivity	Assistant Director, Operations & Continuous Improvement
Demand planning system	Stock optimisation support	Assistant Director, Operations & Continuous Improvement
Peak Review	Project plan for managing 2014 peak business periods	Assistant Director, Operations & Continuous Improvement
Customer Relationship Management (CRM) System	Account management and customer relationship	Assistant Director, Sales & Marketing
Supplier relationship system	System for managing supplier relationships (and margin), and visibility of direct orders	Assistant Director, Marketing & Communications

Ongoing projects with ESPO, being dealt with through the existing structure

Project	Description	Owner
Thought Leadership	Delivery of EU procurement training and expertise to staff of Member Authorities and broader procurement network	Assistant Director, Procurement & Compliance
Indigo Implementation	Roll out automated warehouse picking solution	Assistant Director, Operations & Continuous Improvement
Health & Safety	Implement and embed management system	Assistant Director, Operations & Continuous Improvement
People Plan	Including staff survey response and training	Human Resources Business Partner
Customer analysis	Service level with customer segmentation	Assistant Director, Sales & Marketing
Internal financial reporting	Key measures	Assistant Director, Finance

The Continuous Improvement Programme is headed by a Programme Director supported by project managers to coordinate the activity. We currently draw upon resource from the Leicestershire County Council support team to deliver this.

The assumptions made in the project plans will reflect the priorities and budgets in ESPO and work to guiding governance principles which address risk and provide on-going RAG reporting.

The programme will seek to map the organisation's key processes and stakeholders including management committee, customers, suppliers, staff, and unions. The EFQM methodology provides a proven means of engaging with stakeholders and a project governance framework.

Investment pipeline for the Continuous Improvement activity:

Using the business case approval process, the projects to be sponsored within the business will be investments which are fully supported by a business case and rigorous analysis before being enshrined in the project plan, and the annual budget. Operations and Finance within ESPO work closely together to ensure mutual understanding of all costs and business benefits.

All business cases will be monitored and reported on through the highlight reports and learning reviews to the Senior Management Team.

Risk Management

The Director and the Senior Management Team (SMT) are responsible for anticipating and identifying, assessing and managing risk. This is delivered through implementing and reporting on policies approved by the Management Committee. In adopting a formal approach to risk management, we have the knowledge both to anticipate potential risk and also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the impact of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability. Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

ESPO's Risk Management Statement covers health and safety, project compliance process and business continuity. The complexities of public sector procurement, the drive for transparency in decision making and for increased savings means that potential risks are increasing.

Managing risk will involve ensuring controls are in place and are regularly monitored, and are documented on the Corporate Risk Register which is reviewed quarterly by SMT, and Major Risk Record (MRR) setting out where further action is implemented. Any increased risk, or new risk identified that could have a material impact on ESPO's business will be immediately reported to the Chief Officer Group (COG), and with regular reporting to the ESPO Management Committee. The risk management approach at ESPO considers both internal and external risk which helps to inform key activities within the organisation. Therefore, the strategy considers all pertinent risks and are planned for accordingly.

Performance Management of the Strategy

The four-year strategy will be monitored routinely through the Balanced Score Card and through annual business plans developed to align with the Medium Term Financial Strategy, and refreshed each year. The objectives and outcomes in this annual action plan will be reported regularly to Management Committee. Regular feedback from customers and Member Authorities will also be used to evaluate progress.

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Support Infrastructure Underpinning the Strategy

Embedding the restructure of the Procurement and Marketing functions is a high priority to ensure ESPO continues to succeed.

The procurement function offers a wide range of services to Member Authorities and customers including procurement of goods and services, advice and guidance on products and services, markets and technical procurement issues.

The function was reorganised to take advantage of opportunities for process efficiencies and to introduce a more rigorous approach to risk management, a better customer service by bringing in a more coordinated approach to engaging with our customers about their service needs whether this is a catalogue or specialist procurement need. This is now in place and processes are developing to embed the principles.

The efficiency objectives are to introduce greater standardisation across process, procedure and documentation throughout the procurement function, enabling 'smarter buying' as well as defining clearer remits balancing the customer and supplier focus. We will utilise new technologies such as e-tendering and contract management systems to support some of this standardisation as well as being able to provide detailed reports to our Members and customers.

Further benefits of the restructure will be to take a more strategic approach to the categories that we service and have a deeper understanding of customer needs. We will also be able to adopt a more streamlined approach to create and manage framework solutions through following standard operating procedures and a better use of existing resources.

One of the key lessons from MSTAR was that it is essential that early considerations should be given to contract management strategies; therefore contract management will be one of ESPO's key priorities which will require engagement and continued understanding of the marketplace. This will be supported by necessary and appropriate data to meet contract management objectives, supporting engagement with customers and suppliers, facilitating market development and supplier relationship management.

Monitoring and understanding contract usage is essential to inform in advance what ESPO is likely to procure in the future and the reasons for it, i.e. legislative, governmental, landscape changes, and better understanding of customer requirements. Managing strategic contracts in this way across the organisation will provide information which will be significant and useful in terms of income streams, management and market knowledge for customers but can also be used for marketing purposes.

Appendix 1: ESPO SALES & MARKETING STRATEGY

PLANNING FOR GROWTH

Planned growth from existing customer base:

Increasing sales in existing markets is the easiest and most cost-effective way to grow the business. ESPO already has strong, loyal customer base across Education (circa 8500 schools) and corporate sectors (total unknown) in traditional trading area. Member areas are mature markets, with high penetration and little headroom for growth. Focus on strengthening existing customer relationships.

Education Sector	<ul style="list-style-type: none"> ▪ <i>Cross-sell catalogue offer to existing customers – buy more of same/new products to sell</i> ▪ <i>Introduce frameworks/contracts</i> ▪ <i>Tactical activity – Xmas/Academic year</i> ▪ <i>Pro-active promotion of ESPO Healthcheck</i> ▪ <i>Provide procurement solution/simplify process</i> ▪ <i>School Loyalty & Reward programme</i> ▪ <i>Support delivery of Account Manager area development plans</i> ▪ <i>Wales development</i> ▪ <i>Academy Groups in area</i>
Corporate Sector/ Frameworks	<ul style="list-style-type: none"> ▪ <i>Increase profile of existing framework offer</i> ▪ <i>Target sectors/departments within existing LA customers (Environment/IT/Fleet/Social Care)</i> ▪ <i>KAM existing client base – provide procurement solutions/consultancy service</i>

Planned growth from new areas:

Focus on customer acquisition to increase sales through planned expansion into new areas. ESPO has ad-hoc customer base in Education & Corporate across non-member areas. Focus on new customer acquisition to generate incremental growth through new customers. Target weaker competitors and ESPO border areas – Consortium (ex-WMS) and CBC. Recent campaign activity identifies a good appetite for ESPO products & services outside non-member areas.

Education Sector	<ul style="list-style-type: none"> ▪ <i>Primary focus on ESPO border areas:</i> ▪ <i>M5 corridor – Shropshire/Worcestershire to bridge gap between Midlands & Wales</i> ▪ <i>Northern Home Counties – Essex/Herts/Bucks/MK</i> ▪ <i>CBC – Suffolk & surrounding</i> ▪ <i>Introduce UK offer – develop and launch a new ESPO Direct proposition. UK delivery offering full UK mainland coverage on key product lines with express delivery option.</i> ▪ <i>New School Academy groups/consortiums</i> ▪ <i>Expand into FE/Colleges/University sector</i>
Corporate Sector/ Frameworks	<ul style="list-style-type: none"> ▪ <i>Increase profile of existing framework offer to new sectors across UK: Housing Associations/Healthcare/Blue Light & Emergency Services/MOD/Local Authorities/Charities</i> ▪ <i>Broaden framework offering to Scotland/Wales/N.I</i> ▪ <i>Deliver and manage more ESPO led national frameworks (Phonics, MSTAR).</i>

Store Sales revenue growth:

Deliver on current strategy objective of increasing stores turnover by 20% in volume over four years. ESPO to provide more product choice, available to more customers, faster.

Main Catalogue/ Store Product Range	<ul style="list-style-type: none"> ▪ <i>Main Catalogue development – new products for growth</i> ▪ <i>Product range reviews: Value Ranges/Smart Buy/Exclusives/Hero Products/Bundles</i> ▪ <i>Cross-selling opportunities – products/ordering channel</i> ▪ <i>Refine look, maximise impact and catalogue best practice</i> ▪ <i>Supplier Funding (£1m plus)</i> ▪ <i>ESPO Direct proposition</i> ▪ <i>E-tendering growth & online web development</i> ▪ <i>ESPO own product sourcing</i>
ESPO Direct	<ul style="list-style-type: none"> ▪ <i>Production 4 times per year ESPO Direct mini-catalogue.</i> ▪ <i>Product offering streamlined to focus on top 2,000 catalogue lines and expand current direct to customer offer.</i> ▪ <i>Next day delivery by courier through online order processing, backed by a price match promise and next day delivery guarantee.</i>

CUSTOMER FOCUS

All customers are the most important people in our business - they are not dependant on us - we are dependent on them. Exceptional customer focus will ensure our customers continue to receive excellent service, value and choice. It is vitally important for ESPO to develop customer service as a differentiated proposition and develop the USP to generate the leading position across our sector. Plan to focus on front and back office Customer Service operations, training & multi-skilling, communications, maximise order processing, call handling, resource planning, IT systems.

Customer Service	<ul style="list-style-type: none"> ▪ <i>Integrated channels, communications, propositions.</i> ▪ <i>Customer Focused Charter developed & implemented</i> ▪ <i>Improved processing systems – ACD screens/order processing/stock ordering/online ordering</i> ▪ <i>Complaints Management – tracking/resolution /source</i> ▪ <i>Loyalty/Reward/Recognition programme</i> ▪ <i>Order feedback initiative – card/e-mail</i> ▪ <i>Management of Supply Chain – Direct Deliveries/Stock Optimisation/Stock Availability</i> ▪ <i>Product price benchmarking - VFM</i> ▪ <i>Web Development project</i> ▪ <i>Databases/data capture/Information</i> ▪ <i>Customer Service benchmarking/Measures</i>
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RETAINING OUR CUSTOMERS

Customer Loyalty/CRM Programme:

YPO Share of Profits Loyalty Scheme gives customers opportunity to receive a share of their annual profits, based on how much spent in a calendar year. ESPO to be first to market with a Schools focused, reward scheme proposition.

Recognise best customers and reward their loyalty. Identify potential best customers and tailor marketing activity to them. Objective of reward programme is to strengthen 2-way relationship between ESPO and customers. Create barrier to entry from competitors. Continue existing Member customer engagement. Keeping existing customers is considerably less expensive than acquiring new ones. Increased customer loyalty has a direct relationship with increased profitability.

ESPO Reward Card	<ul style="list-style-type: none"> ▪ <i>Develop, implement & launch ESPO Reward programme targeting education sector.</i> ▪ <i>Programme rewards linked to Catalogue and Framework usage. Increase in customer loyalty, transaction values, encourage new account acquisition, improved CRM/data, spend analytics/sales Information, increase/improved customer communications.</i> ▪ <i>Continued customer engagement (high % Member areas)</i>
Major Customer Rewards	<ul style="list-style-type: none"> ▪ <i>Develop Management Cottee scheme proposal to recognise major customers who are not members.</i>
CRM/Database Development	<ul style="list-style-type: none"> ▪ <i>Database development</i> ▪ <i>Customer Segmentation – Recency/Frequency/Value</i> ▪ <i>Improved Sales Team & Marketing Support</i> ▪ <i>Segmentation/Targeting/Positioning</i> ▪ <i>Improved Key Account Management</i> ▪ <i>Internal versus Bought-In data</i>

MARKETING & COMMUNICATIONS

To develop and improve ESPO's branding, marketing and communications capability.

Marketing & Communications	<ul style="list-style-type: none"> ▪ Develop ESPO brand ▪ Better manage PR/Media/Corporate/External communications. ▪ Improving internal communications ▪ Promote frameworks/contracts ▪ Tactical marketing and promotions ▪ Focus on Acquisition & Growth, Loyalty & X-selling ▪ Promoting E-communications/E-tendering ▪ Catalogue promotion ▪ Marketing, Campaigns/Events/Offers ▪ Case studies & testimonials ▪ Newsletters, events, intranet, briefings
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STRATEGIC COLLABORATIONS

The nature of multi-stakeholder collaborations are changing – becoming commercial, strategic, relational - more than transactional. Huge opportunity to strengthen and develop new and existing stakeholder relationships with greater understanding across partners, collective leadership, collaborative mind-sets, relationship management and output-focused. Key ESPO relationships – CCG, PRO5 members, Department for Education (DfE), Key Suppliers, Professional Associations and Membership.

Joint Relationships	<ul style="list-style-type: none"> ▪ <i>Develop top/key supplier strategy to strengthen commercial relationships.</i> ▪ <i>Supplier funding(+£1m)</i> ▪ <i>Joint marketing opportunities – CCG/DfE/OUP/Sinclair/Pearson/Youth Sport Trust/NASBM</i> ▪ <i>Partner with new and existing School Academy groups</i>
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ESPO's marketing objectives for the four-year plan are:

- To establish and embed a 'Customer Relationship Management' (CRM) ethos and methodology across the service lines. CRM will enable one view of any customer across the various activities of the organisation which will enable development of targeted marketing plans and improve information and communications both internally and externally.
- Establish, integrate and embed the capture of knowledge & information to provide market intelligence which will apply to all procurement activity and deliver better contract outcomes; this Intelligence model will provide guidance, support and know how at the front end of the procurement process and inform better decision making.
- To achieve a year on year increase in the visibility and memorability of the ESPO brand measured through feedback from customers and other stakeholders; consideration of brand differentiation between [fundamentally] our catalogue product offering and Framework Contracts/Procurement Consultancy will be part of a brand audit during 2012/2013.
- To increase the awareness of our Framework Contract solutions to the wider public sector and specifically to all UK local government customers measured by customer feedback (baseline 2010/2011) and rebate income levels. (baseline 2011/2012) Rebate income levels to increase by 25% over the business strategy period.
- Create a Marketing plan to promote key contract outcomes and align/embed this activity to the new procurement category teams and connect all to the development of key relationships with local authorities, wider public sector customers and other stakeholders.
- The overall volume of stores business increases by 20% over the business strategy period, through increasing our market penetration and generate new business into our existing customer base, new areas, including the Education Sector in London, South Wales and South West Midlands (M5 corridor).
- To achieve a target of stores catalogue product sales of £3.5m on our Smarter Buying ('Value') range of products.
- Improve supply chain management and collaborate with other PBO's to aggregate volume and procure, where commercially viable.

- To increase levels of customer satisfaction measured through feedback from our customers and other stakeholders; baseline survey data is from 2010/2011. Customer retention will be a key measure in any new survey and feedback activity.
- To direct efforts to support cost reduction and efficiency programme by encouraging customers to migrate to web and e-tendering channels. This activity will be supported by stronger closer relationship with DfE and their strategy to improve e-commerce in schools generally.

TEAM DELIVERABLES:

- To deliver a commercial offer which drives and maximises growth, sales and profitability.
- Deliver a customer focused proposition to ensure the customer experience is at heart of a service based ESPO culture.
- To develop and improve ESPO's brand, marketing and communications capability
- To develop partner relationships which support commercial and customer objectives.

ESPO CHALLENGES:

- Public sector customer base reduced budgets – Local Authorities; Education Sector,
- Complexity of procurement process – looking to simplify/solutions
- Increasing competition - private and public sector organisations
- Increasingly price sensitive customers who looking for Value for Money
- ESPO who? - outside traditional trading area/sector
- ESPO playing 'catch-up' in some commercial areas
- YPO – clear strategy for sales growth, customer service & commercial development
- Internal investment needed – systems/processes/people
- Resource restrained – staff/space/logistics

INTERNAL - FUNCTION CHALLENGES:

- Staff/Resources/Space – all at capacity
- Budget – OPEX versus Tactical
- People skills gaps – planning/commercial/team leadership
- IT – systems & processes (CRM, KPI reporting, integration, complex)
- Training/Development/Learning
- Management Information & KPI reporting
- Complaint management, root cause & resolution
- OWOW versus NWOW versus Behaviours
- Succession planning

EXTERNAL - FUNCTION CHALLENGES:

- Direct Delivery suppliers
- Customer complaints
- Stock availability – Key Lines

- Stock Future Forecasting
- Catalogue Team – resource & learning curve
- Customer Service Management - especially Peak periods
- Customer Experience - service level inconsistency
- PRO5 & YPO – collaborations/joint working
- KPI reports & dashboards
- Lack of Market Insight and Intelligence: Current versus Short versus Medium versus Long-Term

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Appendix 2: ESPO Procurement & Compliance Strategy

ESPO's agenda for procurement and compliance will be characterised differently to the efficiency and growth agenda of our catalogue and stores operation. The demonstrable value to Members is in the range and quality of our procurement activities be that framework agreements or public contracts. The Member rebate is very small in comparison of the cost and risk avoidance Members enjoy from using ESPO, as well the contract savings themselves as a consequence of ESPO growing its reputation for 'good procurement'.

Strategic Context

ESPO as a provider of procurement solutions via public contracts or framework agreements is required to undertake a larger number of public procurement competitions than nearly any other body nationally. It structures itself to deliver this by having nine category teams, each headed by a Head of Category reporting to one of two Commercial Managers; ultimately reporting to the Assistant Director and then Director of ESPO.

In support there is a 'compliance' function consisting of a commercial solicitor, a practice manager and a central administration function all reporting directly to the Assistant Director. The size of administration exists primarily as a result of a lack of e-tendering functionality. In addition administration features in category teams.

ESPO is inherently exposed to a high level of procurement compliance risk due to:

- The volume of its procurement activity
- The attractiveness of making a challenge against it based on likely damages (high value contracts)
- The fact it can be requested to undertake a whole range of complex activity as a delivery arm to its Members and wider public sector that may not be desirable to undertake themselves

There is also a growing trend of external economic and legislative factors that further increase risk namely:

- Increased legislative burden, e.g. remedies directive
- Increased pressure on businesses to win tenders due to global economic conditions
- An increased awareness of the legislative backdrop that public procurement operates within
- Procurement challenges are an increasing risk as a result of evolving UK and ECJ case law which provides bidders with increasing tools and routes to challenge

The impact of legal challenge is severe; not only is there clearly a reputational (perception) issue to be aware of with customers, but severe financial implications. These include the costs to defend spurious claims, settle claims

that are unclear/carry some risk or indeed defend successful claims. These costs are massively disproportionate to the income or benefit that can be attributed to the procurement offering in nearly all cases. As a business, ESPOs P&L is arguably most at risk as a result of this strategic context.

Clearly, as a consequence ESPO must have a tight and holistic approach to managing 'risk to benefit' in this complex environment. Currently the primary drivers to manage risk are the reliance on the volume and value of procurement expertise within the organisation, use of a 'procurement control record' (PCR) process and access to an internal commercial solicitor.

Do we have unacceptable risk?

In order to ensure that ESPO is best equipped to manage these procurement risks, ESPO must pay attention to improving its strong procurement foundations.

- Procurement re-training at Head of Category level and a clear management narrative of the expectations of the role to be a leading edge procurement professional in a public sector procurement context.
- We will consider how we can use our resources so as to divide the existing portfolio of nine categories to three categories each. This would aim to be freeing the existing Commercial Managers to focus more on the core procurement and compliance task ahead whilst also engaging more in Member liaison.
- A re-launch of the 'PCR' process to include commercial managers and that now enforces personal responsibility at the lowest point. Sign off progressing through to Head of Category and then Commercial Manager for compliance approval prior to a panel environment. It must be clear that the expectation is such and not just as a gateway to Assistant Director decision making on anything and everything.
- A greater emphasis of peer review of documents, front loading effort on conceiving appropriate procurement strategies and not over –focus on form filling.
- A realignment of tasks between the Assistant Director and the Commercial Managers to emphasise the role of the Assistant Director as the strategic lead, not the single point of forensic analysis of all procurements. These strategic tasks include strategy, learning and development, resource management, recruitment, representation of ESPO externally, development projects.
- Set out Actions to improve mitigation/resolution in the event of legal inquiries initiating.

The function must continue to be commercially positioned to contribute to delivery against wider ESPO policies of a flat cost line with a growing income line as a proxy measure for engagement in our procurement offering.

The 2014-2018 work programme

The activity can be summarised as follows:

Internal focus:

- Refreshed senior structure in place of three commercial managers, commercial solicitor as AD direct reports (quarter 1)
- Clearer, better defined and fit for purpose legal service to support P&C activity
- Provision of public contract regulations 2014 training to staff via our appointed external training partner PP&CS Ltd
- Launch of a suite of business processes and standard documentation
- Implementation of Due North so as deliver E-tendering functionality
- Piloting of ISYS time/cost recording
- Delivery of GEMS replacement project
- Developing a risk strategy for compliance risk at ESPO
- A forward work plan for 2014 published (including a 'major procurements' programme)
- Procurement category strategies authored and published
- Spend analytics
- Continued cultural shift to raising standards, vigour and 'good procurement' model

External focus:

- A documented and agreed collaborative position within Pro5 predicated distributing rebate on procurement and contracting effort (80%) wider support marketing (20%).
- Exploration of targeted 'franchising' collaboration e.g. across HE or blue light services
- Supporting the cabinet office in its training agenda for PCR 2014 by having train the trainer training and offering training by ESPO senior staff to four cohorts identified by Cabinet Office
- Offering Members access to ESPO training partner for their own procurement training for PCR 2014
- Developing a wider offering for procurement training
- Reputational enhancement through active involvement at a national level through SOPO and the LGA to shape and implement national messages
- Improved PR and reputation through entering awards, thought leadership and publication
- The four-year plan: what will good look like for procurement and compliance in four years' time?
- ESPO has a reputation as the accepted number one delivery arm for local government procurement policy and activity
- A more even distribution of procurement customers pan public sector
- The development of a different funding model(s)
- A structure which can provide for the accepted portfolio of goods and services of today, international sourcing of commodity catalogue items and a division that can credibly provide for outsourcing and commissioning of major services (a public sector consultancy arm that can compete with the well-known consultancy brands used currently)
- Technologically advanced and data driven to provide for saving statements, spend analytics and automated commodity procurement

Headlines of the Future Direction for Procurement & Compliance

In addition, for ensuring our core governance and risk management is improved, the core focus for procurement and compliance are shown below:

- To progress more aggressively with procurement technologies e.g. e-tendering, use of e-auctions, e-PQQs with storing of previous data.
- Data driven understanding of who uses our frameworks, what's in the pipeline for renewal and tracking effort to risk and income?
- In conjunction with extending the awareness/reputation of a pan public sector procurement solution provider to have greater customer insight, understanding of their procurement environments. To be ready to deliver on the promise.

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Appendix 2.1: Public Procurement law: Update and Trends

Synopsis

The financial crisis which took hold in 2008 has subsequently resulted in a range of austerity measures being adopted across the European Union. This has directly impacted on expenditure at national government and local government levels. As such there have been fewer and less sizable new opportunities being presented to the market place.

In turn, this has driven up competition between 'economic operators' (suppliers) competing for public contracts. In parallel trends towards longer term contracts, greater use of framework agreements and more joint working has led to something of a perfect storm for public procurers. It undoubtedly has driven an increase in informal disquiet within supply markets and more and better informed formal legal challenge activity being initiated. The introduction of the Remedies Directive in December 2009 into UK statute further enhances the probability and impact of formal legal action.

Although increasingly accepted as a real 'phenomena' amongst public procurement practitioners and subject of many presentations (see Society of Procurement Officers presentation by partner at law firm Veale Wasbrough Vizards); there has also been an absence of supporting empirical evidence to support the assertion of what is being experienced.

Trends

At an EU level the pattern is relatively mixed. In 1985, there were no cases decided by the ECJ, rising to a peak of 21 cases in 2008 and falling slightly to 19 in 2009. In 2013 there were 6 cases heard in the ECJ. In the UK in 2012 there were 16 reported procurement cases managed via the High Court. However, there was a significant amount of case law from the UK and European Court of Justice in 2013 and these are summarised in appendix one.

There is a complexity in seeking empirical evidence as much of the data available represents scenarios of dispute that have advanced down a formal litigation route. In practice, most public procurement disputes are resolved more informally; increasingly with public procurers not awarding contracts and agreeing 'costs' via a solicitor facilitation process. It is therefore consistent to see a more litigious environment but with a consistent pattern of eventual High Court or ECJ referrals.

The balance of power is alarming. Losing in the High Court a major public contract could result in a multimillion pound remedy, hence even cases where the public procurer believes the complaint or query to be unjust the risk of such a heavy financial burden tends to induce a preference to resolve outside of a litigation process.

Another aspect to understanding the trend is also the legal aspects arising from case law and the shift in emphasis and position through the European Directives

and UK statute itself. In the UK the Public Contract Regulations 2006 introduced increasing obligations for procurers and is soon to be replaced by the Public Contract Regulations 2014 which whilst does not seemingly seek to introduce anything more cumbersome, maintains the previous obligations for criteria, scoring and award.

What is driving the trend?

Aside from the economics of the EU, there is also seemingly a growing awareness of the rights and obligations within public contracting. Each piece of legislation and case law serves to provide the clarity over interpretation of what is and isn't acceptable. So whilst the 1957 Treaty of Rome principles to which the legal framework originates has not altered we are experiencing an increasing interpretation of the expectations of behaviour required to uphold them.

As a simple example, invitations to tenders moved from not listing criteria upfront, to having to be included, to having to be ranked in order of importance, to all criteria having to have a clearly assigned weighting. It is not uncommon to be challenged now on aspects such as common words 'good', 'poor' not receiving the exacting numerical value by evaluators across every criteria and sub criteria or indeed niche aspects such as the difference between averaging scores or moderating scores.

Whereas a broad and fair application of the Treaty Principles and legislative timeline and tender requirements used to be the measure of having being 'compliant'; at its worst total and exacting compliance is almost an unachievable without each and every aspect of the process being undertaken by people with a very developed understanding of the risks and up to date requirements.

Conclusion

Given the trend over a number of recent years to have more of and more complicated and litigious challenges to procurement decisions, there have been a number of developments to risk management.

The most effective way of managing risk is via a category management approach with upfront effort in the conception stage of a public procurement. This means having a developed understanding of the supply market, awareness of public sector procurement of others experiences and a general rising in standards and competency. An outdated position in the past of public buyers 'cutting and pasting' from tried and tested ITT's has been replaced to having to invest proper consideration and analysis prior to initiating any process. (PCR stage 1 and stage 2)

Thereafter the execution of any procurement process needs to stand up to both academic and legal scrutiny (PCR 3). In the past, following some very high level process requirements was largely tolerated by the supply market; however, today there is an ever increasing expectation to see invitations to tenders presented to market and tenders subsequently scored that show a high level of insight, fairness and legal application across the many obligations.

The key components of risk management evident at ESPO are an investment in procurement expertise via investment in a category management structure, a procurement control process for approval at initiation, execution and approval phases of our procurement processes and inclusion of a procurement solicitor in our decision making panels. To further enhance in 2014 there shall be training available on the incoming public contract regulations 2014, exploration of the protection (if at all) of professional indemnity insurance and a review and refresh of internal governance.

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Case law for 2013

The 18 procurement-related cases from the UK courts and the European Court of Justice in 2013 are summarised below:

Nordecon AS v Rahandusministeerium (C-561/12) [2013] EUECJ

The European Court was asked whether an authority is free to revise mandatory technical requirements included in its tender documentation as part of the negotiation process in the negotiated procedure, if a non-compliant tender is actually better than the authority's technical requirements would allow.

The Court refused to allow such a negotiation. Where a requirement was mandatory in the tender, it remained mandatory and could not be negotiated away. To do so would undermine the entire nature of a mandatory requirement.

Ministeriet for Forskning, Innovation og Videregaende Uddannelser v Manova A/S (Case C-336/12) [2013] EUECJ

A losing bidder challenged the Danish education ministry for having allowed (at pre-qualification stage) the two winning bidders to submit financial balance sheets after the deadline for submission of applications, and having been alerted to their absence by the ministry. The balance sheets were needed to permit the usual assessment of a potential supplier's financial strength.

The court rejected the bidder's challenge, on the grounds that provided the balance sheets themselves pre-dated the deadline, it was reasonable for the ministry to seek them as part of a post-submission clarification process, when it was normal to correct any obvious errors. The court did however confirm that had the ministry's documentation expressly stated that failure to provide information by the deadline would lead to exclusion, then the ministry could not have requested them, and any bidders concerned would have to be excluded.

Swm Costruzioni 2 SpA, Mannocchi Luigino DI v Provincia di Fermo (Case C-94/12) [2013] EUECJ

This case centres on a conflict between Italian state law, and European law. In European law, an applicant for a tender may cite the resources of third party entities in order to meet qualification criteria, provided that the applicant proves to the contracting authority that it will actually have at its disposal the resources of those entities necessary for the execution of the contract. Italian law limits the number of such third parties to one. The court ruled that European law takes precedence, and applicants may rely on the capacity of as many other parties as appropriate.

Healthcare At Home Ltd v The Common Services Agency [2013] ScotCS CSIH_22

The court rejected a challenge concerning the clarity of the award criteria for a framework agreement. The court said that the criteria were formulated in the ITT in such a way as to allow all reasonably well-informed and normally diligent tenderers to interpret the criteria in the same way, and in the way intended. The *subjective* views of any particular tenderer do not need to be taken into account by a purchaser when considering a challenge.

Evropaïki Dynamiki – Proigmena Systimata Tilepikoinonion Pliroforikis kai Tilematikis AE v European Commission (Cases T-457/10 and T-474/10) [2013] GC

Evropaïki Dynamiki (European Dynamics, or ED) claimed multiple failings on the part of the Commission in its procurement of information services. These included claims that the Commission should have excluded the winning bidder (whom ED suggested were ineligible because one of its subsidiaries relied on work carried out in a country which was not a signatory to the Agreement on Government Protocol), and that there were errors in the way ED's tender was evaluated. The court rejected all these claims, and dismissed ED actions.

Waste Services Ltd v Northern Ireland Water Ltd & Ors [2013] NIQB 41

This is a Utilities case, so doesn't *necessarily* apply to local authorities. The case mainly concerns whether a tender *award* evaluation scheme can involve two stages – e.g. a minimum quality threshold 'hurdle' which a tender must meet in order to qualify to proceed to a second stage of evaluation (which in this case focussed on price). A bidder challenged the purchaser's right to do this, claiming that it blurred the distinction between selection and award criteria. The court however rejected the challenge. This case (along with others) has thrown further light on the *Lianakis* (2008) case, which first established the strict split between selection and award criteria – more recent cases repeatedly imply that it may well be permissible to look at factors normally regarded as selection criteria at award stage, such as experience and resources, provided that the purchaser shows that these are 'properly linked to the subject matter of the contract'.

Montpellier Estates Ltd v Leeds City Council [2013] EWHC 166 (QB)

Leeds City Council conducted a competitive dialogue for the development of a music arena in the city. Montpellier Estates Ltd (MEL) participated, but feared from the start that they were being used by the Council as a 'stalking horse' and could not win, as the Council actually wished to develop its own scheme on its own land. The Council assured them this was not the case, but subsequently terminated the procurement, and duly developed its own scheme. MEL claimed that Leeds had breached the Regulations by prematurely terminating the procurement; and by introducing a public sector comparator secretly and in parallel to the procurement process.

The court rejected MEL's claim, confirming that the Council terminated the procurement at the point it became apparent that it was unlikely to deliver value for money (and in so terminating it the Council avoided imposing on bidders the cost of preparing final tenders). The court also confirmed that the Council had a right to develop its own fall-back solution.

Joined Cases T-339/10 and T-532/10 - Cosepuri Soc. Coop. pA v EFSA, judgment of 29 January 2013

Cosipura is a bus operator in Italy which having failed to win a contract asked to see, amongst other things, the tender submitted by the winning bidder. EFSA declined to disclose this document, which the court agreed they were correct to do, on the grounds that 'a successful tender can fall within the scope of the exception [i.e. the exception to the obligation be transparent in disclosing documentation] relating to the protection of commercial interests and this

restriction is integral to the objectives of the EU rules on public procurement, which are based on undistorted competition’.

Case C-115/12 - French Republic v European Commission (26 September 2013)

The case concerned public aid to a company renovating a holiday village in Martinique. The French government had allowed generous tax breaks on the project, which the court said amounted to a public subsidy. When this was added to a separate contribution from the European Regional Development Fund, the project was held to be publicly funded to more than 50% of its cost, and hence should have been subject to the (works) procurement regulations. The French government argued that a tax break was not a public subsidy, but the court did not agree.

European Dynamics Belgium SA and others v European Medicines Agency (Case T-638/11) [2013] GC

The court agreed with the claim of European Dynamics (ED) that the Agency had failed to provide a sufficient statement of reasons as to the grounds for rejecting ED’s tender for software applications. The court therefore annulled the Agency’s decision not to award to ED.

Covanta Energy Ltd v Merseyside Waste Disposal Authority [2013] EWHC 2964 (TCC)

A competitive dialogue process had already taken six years to conduct when the Authority declared Covanta’s bid to be fundamentally unacceptable. Covanta couldn’t use the 2009 remedies (automatic suspension) in challenging the decision – this wasn’t available, as the procurement had begun in 2006, so they instead called for an injunction preventing the Authority awarding a contract.

The court agreed and granted the injunction, on the basis that i) damages (if the contract were awarded and Covanta subsequently won a case) would be almost impossible to assess; ii) given the procurement had already taken so long, the consequence of further delay would be modest; and iii) any sizable damages payment would be a burden on the taxpayer.

Lowry Brothers Ltd and other v Northern Ireland Water Ltd [2013] NIQB 23

The water company (NIW) was facing a challenge to the award of a framework agreement, the grounds for which the court did not consider strong. NIW applied to have an automatic suspension of the award lifted, and the court agreed, stating that even if the case ultimately went against NIW, payment of damages would be an adequate remedy. (Whilst damages are hard to assess in procurement cases, this does not ‘give rise to the proposition that [they] would be inadequate’.)

Nationwide Gritting Services Ltd v The Scottish Ministers [2013] ScotCS CSOH_119

Nationwide Gritting Services (NGS) challenged the Ministers over the non-publication of an OJEU notice for winter road salt supplies; salt was apparently simply being bought from a range of suppliers, without formal tender process on what were claimed to be grounds of extreme urgency. The Ministers rejected NGS’s challenge on the grounds that it was launched more than three months

after the relevant purchases were made (i.e. it was outside the qualifying period for actions to be brought).

The court however upheld NGS's right to challenge, on the basis that NGS could not have known about the purchases at the time they were made, because no notices of any kind (including a notice of award) were posted. NGS's suspicions that they were missing opportunities to supply were founded on hearsay, market intelligence, and so on. They only knew for certain when they received a confirmatory e-mail reply from the Ministers, and the date of this e-mail was *within* the time limit, so the case was referred for full trial (at a later date).

Corelogic Ltd v Bristol City Council [2013] EWHC 2088 (TCC)

Corelogic challenged the Council's award of a contract, claiming breach of certain obligations under the Regulations concerning provision of feedback, and commenced proceedings within the permitted 30 day time limit. Subsequently Corelogic sought to amend the claim, raising specific objections about the Council's evaluation procedures. The court held that the amendments represented a fresh claim, and it was rejected as ineligible as it was by now outside the time limit. Although Corelogic claimed that the substance of their claim was the same, the court disagreed and even though the amended form apparently presented a far stronger case, the time limit ruling precluded this being considered. The case illustrates to bidders the importance of covering all possible grounds for challenge at the earliest opportunity.

Pearson Driving Assessments Ltd v The Minister for the Cabinet [2013] EWHC 2082 (TCC)

This case concerns the timing of the disclosure of information in a situation where a contract award is suspended as a result of a challenge (in this case by Pearson, an unsuccessful tenderer). The court acknowledged that bidders in such situations are often in a difficult position, but even so did not instruct the contracting authority (the Minister) to disclose documentation ahead of a planned hearing because of the burden this would place on the authority and also because the authority would then not be able to rely on any controversial witness statement evidence in its application. Further document disclosure could be ordered during the hearing itself if this proved necessary.

Roche Diagnostics Ltd v The Mid Yorkshire Hospitals NHS Trust [2013] EWHC 933 (TCC)

Essentially, this case also focusses on the timing of disclosure, but also on *what* documents should be disclosed by a contracting authority to a bidder challenging an award. The Trust had provided some documents to Roche by way of feedback, including spreadsheets created after the award in support of the decision. The court decided that the challenger was in fact entitled to see such documents as were necessary to allow them to take a considered view as to the legality and fairness of an evaluation process. These include instructions issued to evaluators, and contemporaneous records of the evaluation process.

R (All About Rights Law Practice) v The Lord Chancellor [2013] EWHC 3461 (Admin)

In error, in tendering for a contract to provide legal services, R submitted a blank tender form. The tender was rejected on these grounds – an action which R claimed was disproportionate, saying that the matter should have been remedied by post-tender clarification.

The court rejected this claim. Clarification could not deal satisfactorily with a situation where there was effectively no information to clarify. Moreover the tender documentation was clear as to what needed to be submitted and by when, and stated that no amendment would be permitted later. Had the purchaser allowed R to submit a completed tender, then this would have been to the disadvantage of other bidders whose tenders would by then already have been received and opened.

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Appendix 3: ESPO Operations Strategy

1. Operational Profile

In the 12 months to June 2013 the Leicester warehouse processed 2,211,453 order lines on 396,134 orders, and made 229,829 deliveries weighing 14m kilograms. The customer base comprises educational and local authority establishments. On average 85% of deliveries are made to schools with opening hours typically between 07.00 and 15.00 hours. ESPO has circa 14,000 active customer accounts, with 36,000 delivery point references.

The orders volumes are highly seasonal reflecting the buying habits associated with the academic year with peaks before and after term holidays. The geographical spread is shown on the schematic below (Figure A). It has been expanding over time out of the core Eastern shires region reflecting the opportunities to extend the reach of the organisation. Deliveries are made by a dedicated fleet of 50 vehicles operating from Leicester and Abertillery with a contractor, Fitzmaurice, delivering into the Norfolk/Suffolk area. 80% of volumes come from 10 postcodes, shown below (Figure B).

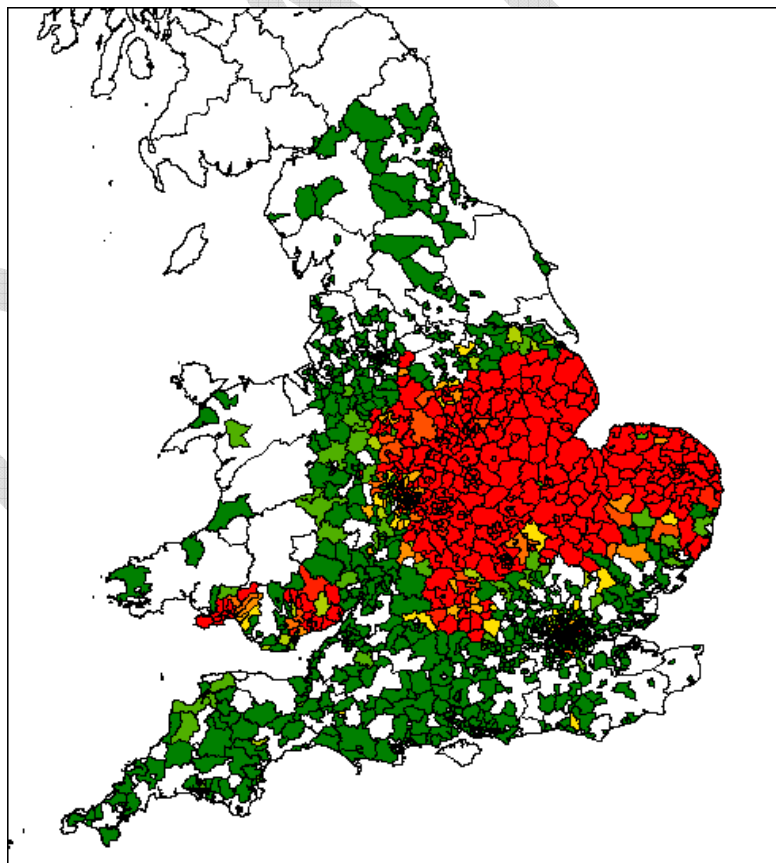


Figure A – Geographic spread of customer order volumes per year

PC Area	Total Weight (kgs)	% of Total Weight	Cumulative %
LE	2,705,898	15.7%	16%
PE	2,218,348	12.9%	29%
CV	1,980,128	11.5%	40%
NR	1,550,043	9.0%	49%
NG	1,196,477	6.9%	56%
NN	1,184,222	6.9%	63%
CB	998,059	5.8%	69%
B	930,496	5.4%	74%
LN	744,543	4.3%	78%
NP	461,955	2.7%	81%

Figure B – Percentage of deliveries by postcode

2. Service Levels

ESPO offers a range of service levels to its customers, from next-day to nominated-day delivery, depending on customer preferences and turnover. Analyses from customer surveys suggest that the majority of customers prefer a nominated day delivery, with the opportunity to use next-day for urgent orders. This manifests itself in a bus-stop delivery pattern within an agreed frequency band. For customers situated outside the ESPO catchment area a delivery frequency band is agreed with Sales and the delivery is made by a courier, currently Fed-Ex.

3. Distribution Profile

The volumes conform to a predictable demand profile that follows the academic year, as illustrated in the graph below (Figure C). This shows the peaks and troughs in the business, with up to 50% uplift in demand from the median.

This creates a number of challenges to the organisation in terms of manpower planning, stock control and warehouse capacity.

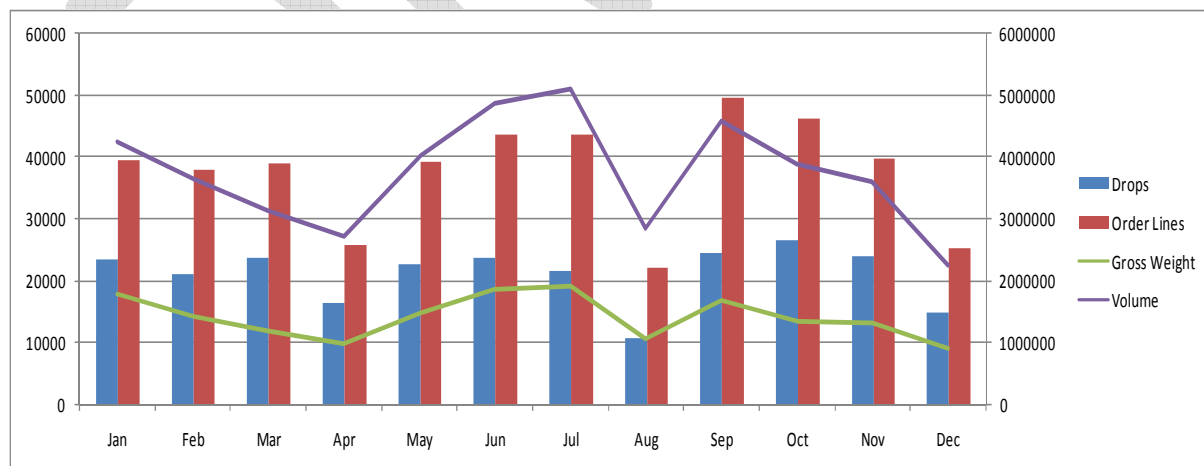


Figure C – Demand profile

The Operation processes 2,211,453 order lines per annum with 229,839 unique deliveries. This equates to 14,877,421 kilogrammes per annum. The number of drops is relatively constant with the order size increasing during peak periods.

A large number of agency workers are used across the year to meet the peak demands that cannot be met by ESPO permanent warehouse staff. The warehouse picks an average of 8,741 order lines per day. We process 1,566 sales orders per day with an average order line per customer of 10.00.

The average order weight is shown in the table below (Figure D).

Weight Band (Kg)	Deliveries %	Weight %	Number p.a.
1-15	40.7	3.3	94,796
16-300	54.2	57.0	126,436
300-500	2.9	14.8	6,660
500-1000	1.7	15.6	4,016
1000-2000	0.4	6.8	890

Figure D – Average order weights

This highlights that a large number of deliveries are parcel sized (40.7%), but only account for 3.3% of total weight. The bulk of the weight (94.2%) is delivered by the in-house fleet, but this accounts for 60% of the total deliveries per annum. The in-house fleet averages 702 deliveries per day

4. Stock Availability

The warehouse stock circa 12,500 product lines. Availability for these products is shown on the attached schedule (Figure E).

Month 2013	Total Orders	1st Desp	% 1st Time
January	36,319	33,525	92.3
February	31,929	28,354	88.8
March	33,186	30,719	92.6
April	26,362	24,491	92.9
May	33,089	29,480	89.1
June	38,696	32,472	83.9
July	39,924	28,973	72.6
August	13,731	11,005	80.1
September	42,262	32,898	77.8
October	30,741	27,092	88.1
	326,239	279,009	85.5

Figure E – Warehouse stock availability

Availability from July has been below standard, creating poor customer sentiment and driving additional costs into the operation with orders being picked and delivered up to three or four times before they were completed. Supplier lead times are not being consistently met, with three staff used for expediting orders.

Improvement Opportunity

The current manual method for reviewing stock is sub optimal and should be replaced with a stock control system. There has been little coordination with the

buying function to provide guidance and advice on demand trends. Supplier orders should be sent electronically wherever possible with the obvious advantage of speed and cost. Finally suppliers should be managed to conform to their contract lead times.

Date	June 2012	September 2012	December 2012	March 2013	June 2013	October 2013
Value £m	6,006	5,305	4,837	4,671	5,163	3,928
Stock Turn	6.40	7.51	8.43	8.63	7.89	10.53

Figure F – Stock value table

Stock levels have been reduced by circa £2m (Figure F). Whilst this is a creditable performance and indicates the amount of surplus stock in the system, it should be balanced by the need to keep full availability of the fast moving lines.

5. Resources

The operational manpower is shown in the table below (Figure G). The warehouse works a two-shift system between 0600 and 2200 hours Monday to Friday. During peak trading periods a night shift has had a positive impact. A permanent night-shift is actively been considered.

Resources	Payroll	Total
Admin	11	11
Drivers	45	45
Warehouse	91	144
Section Leaders	12	12
Managers	6	6
Total	165	218
Sick %	6.0%	

Figure G – Operational manpower

6. Warehouse Staff Productivity

The current pick rates equates to 28.3 lines per hour. This has remained stable for a long period. Consideration should be given to appointing a HR Admin resource to support all ESPO management in managing sickness, discipline and compliance with LCC processes, to complement the Business Partnering activity provided by the Servicing Authority.

7. Transport

A detailed logistics review will be carried out, with recommendations for the way forward expected in 2014/2015. The current fleet comprises LGV and vans which are in the main owned, with some on long term hire (Figure H). This fleet is ageing and is therefore incurring high maintenance costs. It is envisaged that the core fleet could be reduced by running tighter schedules or by outsourcing

other regions. This is currently being evaluated, with cost estimates being provided by potential suppliers. Given the analysis to date, it is anticipated that this will result in ESPO migrating towards a hybrid solution comprising Royal Mail, Carrier, dedicated provider (e.g. Fitzmaurice) and ESPO's owned fleet, due to a combination of factors being the size/weight of the order, geography and the customer profile.

Vehicle Type	Number
Ford Connect	1
3.5t Sprinters	6
4.05t Sprinter (type	3
7.5t	23
12t	14
Total	47

Figure H – Current fleet

The ESPO fleet averages 17 drops per vehicle/day.

8. Finance

The Operations budget for 2013/2014 is shown below (Figure I).

Operations Budget 2013/2014		Sales
Payroll Costs		Ex re-charge 42,300,000
Stores Supervision		5%
Store office		8%
Goods in		9%
Select		36%
Goods Out		9%
Transport		27%
Housekeep		4%
Wales Warehouse		3%
CP Recharge		
Sub Total		9%
Training/Medical		
Premises		
Transport		
Equipment		
IT		
Office	41,370	
Admin Charges		
Sub Total		9%
Total		17%

Figure I – Operations budget 2013/2014

Circa £5.3m of the budget relates to personnel. This highlights the need for staff engagement as a means to driving cost efficiencies into the operation. Analysis on transport cost reveals that the cost of dedicated transport per drop £10.60. The cost for a Fed Ex delivery is £4.50 per consignment. The Operational cost per unique order (excluding central overhead) is £32.02 per order.

The Operations budget includes the building at Barnsdale Way and associated facilities. This element draws in routine maintenance and ad-hoc activity in respect of security, welfare and accommodation.

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Appendix 3.1: Operations Strategy – Areas of Improvement Action Plan

ESPO's operational strategy is to provide an efficient and scalable supply chain capable of delivering products to its customer's on-time and in-full. To ensure that ESPO continues to meet customer requirements now and into the future it will need to develop its logistics capability. This action plan sets out the direction of travel and highlights the improvements that are needed to deliver the strategy.

A. RDT System

The Indigo RDT deployment is scheduled to be completed by March 2014. This will support picking productivity from the current pick rate of 28 lines per hour to a range of 32-35 lines per hour. The system will provide league tables of picking performance to enable performance to be rewarded and improved. It is seen that RDT is a necessary precursor to warehouse automation.

B. Service Proposition

a. Delivery Frequency

It is proposed to analyse accounts by spend to determine delivery frequency. This can be agreed with the Sales & Marketing team and the transport schedules can be re-calibrated to even-up volumes through the week. This will provide greater stability and cost efficiency in the transport and warehouse operation. Indications from smaller customers indicate the certainty of delivery is more important than frequency.

b. Pro-active Communication

It is proposed that Operations provide more pro-active communications with customer contacts to improve service quality. This would include for example confirming delivery windows with schools during summer holidays to enable schools to accept deliveries, obtaining caretaker mobile numbers, clarifying shortages and returns, alerting customers to any delivery delays.

c. Next-Day Delivery Capability

It is recognised that the operation should develop a capability for delivering a proportion of customer orders on a next day basis. This is likely to require a day shift picking resource that can be diverted to carrier deliveries, leaving the night shift to complete the standard orders. This will be fully evaluated once the RDT system is fully deployed.

d. Minimum Order Quantity

Consideration should be given to imposing a minimum order quantity to circa £50, excluding to-follow orders, as a means of recovering the cost of processing an order and a means of getting customers to trade-up. The enterprise cost per order should be derived and compared to the average gross profit contribution to

create a more precise MOQ figure. It might be possible for the system to hold orders until the MOQ threshold is reached.

C. Staff Engagement

Following the staff survey the management team has an ideal opportunity to create a new engagement culture based on improved two-way communications underpinned by progressive policies on reward and recognition.

a. Info-Zone

One of the strands to this policy will be the 'Info-Zone' in the warehouse which will create a lively impactful communication zone. This is being designed and ideas include the ESPO story, our values, pictorial description of ESPO's supply chain, Star of the Week, and the suggestion scheme. The warehouse Staff Forum is being given new life and will be used to create a conversation with warehouse employees. The Driver's Forum has been created and will continue during half-term breaks to enable face-to-face communication with our drivers, who are ESPO's ambassadors in the field.

b. Incentive Scheme

A sustainable incentive scheme will provide a much needed boost to morale and help to reward good performance. Using a store voucher reward mechanism to reward staff who have demonstrated superior performance should be actively considered. ESPO rates of pay are lower quartile, the UK minimum wage is £6.31/hour; the average rate for a Picker is £6.94/hour and Housekeepers £6.31/hour.

D. Management Structure

The Operations team has been restructured to create fewer layers of management enabling closer contact with Supervisory staff. This is intended to empower Section Leaders to motivate staff and to tackle poor performance. This structure allows for more focus on the delivery of key medium-term strategic projects.

E. Management capability: Training & Mentoring Programme

The current operations management team need to demonstrate leadership behaviours to get the best out of the workforce. This will require a programme of management training supported by a mentoring culture. This investment in capability is needed to underpin the efficient growth of the operation.

The first stage of a Training & Mentoring Programme has been delivered by Leicestershire County Council Learning & Development. This will focus on behaviours, conflict management, briefings and communications, time management, performance management motivation and leadership skills.

This will be supported with PDRs and by monthly one-to-one meetings with Shift Managers and in turn with Section Leaders to cascade support to the

management team and to create the leadership values that are seen as vital in transforming the organisation.

F. Health & Safety

A dedicated manager has been appointed to manage our health and safety obligations and to act as a catalyst for improving safety within the operation. A recent Leicestershire County Council audit highlighted the gaps in our management systems and Nigel has embarked on a programme to bring these up to date. We are working with Leicestershire County Council Health & Safety team to ensure that we are complying with the governance regulations. There is a daily shift Health & Safety briefing and weekly Assistant Director walkabout to engage staff and identify potential issues.

G. Management Control & Reporting System (MCRS)

It is intended to install a management system for converting workload metrics into a manpower plan. Further, with standard operating procedures to provide time estimates for the completion of specific loads. This can be used by Section Leaders to hold daily shift briefings and to manage staff resources in pursuit of the daily production target. This process will enable each person to understand their role in delivering the daily production targets.

H. Transport Optimisation

ESPO has engaged four logistics companies to provide an optimum transport solution based on the current distribution profile. These studies will be used to benchmark our current transport operation and to either improve the efficiency of the in-house operation or look to outsource to another provider. A report outlining the findings and recommendations will be made in early 2014.

I. Permanent Night Shift

It is planned to run a night shift throughout the year, to act principally as a replenishment resource, but capable of being ramped-up to provide a picking capability at peak periods. Staff will be consulted on the selection criteria for working nights in conjunction with HR. This will provide a safer and more productive environment for replenishing the pick face from bulk, and to out-load vehicles. This will ensure that the transport schedules run to time and all stock is prepared for the day shifts.

J. Warehouse Automation

Some 60% of picking hours are used in travelling to the pick face. This is implicit in the man-to-goods picking method. The payroll cost estimate of this activity including agency labour is £1.030m per annum. Through a powered conveyor model it is possible to move products to the picker, reducing travel time to a minimum. This method will also improve pick rates and reduce picking errors. The capital cost is circa £700k. A business case to support the capital investment will be submitted during 2014 with a view to implementing in 2015.

Appendix 4: ESPO People Strategy

1. Purpose of the Strategy

The purpose of the strategy is to set out how we will have the right people with the right skills at the right time to meet the changing demands of our customers and deliver ESPO's business outcomes.

It is not intended that this strategy will document every one of our people management activities but instead focuses on those activities that will make the biggest difference to our staff and ultimately the overall performance of ESPO and the customer experience.

2. Themes

a. Developing our leadership capacity and capability

ESPO is fully committed to ensuring that our leadership skills and capacity are developed and enhanced at all levels in the organisation. ESPO needs confident and competent managers who are clear about their management accountabilities for people, finance, service delivery and customers and are focussed on the right tasks. We want all our managers to operate effectively as leaders of transformational change, be able to inspire, motivate and empower individuals and create an environment for people to do well.

Both our leaders and managers will be faced with a number of challenges some of which are outlined in the current business strategy, therefore developing leadership capacity is fundamental to the ongoing success of ESPO.

To achieve this we need to :

- Ensure that managers continue to access the 'Leading for High Performance' development programme;
- Review the Management Competency Framework, and introduce an approach to the 360 degree assessment of managers;
- Develop the core management skills of supervisors and team leaders;
- Build managerial leadership capability at Section Leader level and empower managers to manage and teams to deliver;
- Embed our Performance Management framework including workforce and financial planning;
- Manage resources effectively and address poor performance (attendance and capability);
- Define our organisational culture which reinforces the ESPO's values and objectives where managers and employees are clear about their priorities and are accountable for delivering high quality services;
- Develop and embed a workforce Planning model across ESPO to understand future workforce requirements;
- Monitor and report workforce targets at a senior management meetings and take appropriate action where necessary;
- Benchmark staff costs, turnover, absence rates and equality targets;

- Improve HR systems and processes and guidance to ensure excellent people management and service performance;
- Focus on delivering outstanding customer services;
- Review management and organisational structures.

b. Workforce learning and development

We want our people to be flexible to embrace change, to look outside for new ideas and to find innovative ways to solve problems and improve services. In order to achieve this we need to:

- Embed ESPO's Learning and Development Strategy, setting out the workforce development priorities and how these will be achieved;
- Embed the Performance Development Review (PDR) paperwork and process and sustain a culture where all staff have a PDR and learning and development plan and that this is reviewed;
- Use the Investors in People (IIP) approach to engage, develop and support our staff;
- Review the provision of Leicestershire County Council courses to ensure they are providing both the workforce skills and capacity required;
- Encourage staff and managers to build networks outside the organisation.

c. Employee communication and engagement

Engagement of the workforce and gaining the commitment of employees is a key strand of this Strategy. Staff need to work in an environment of trust and openness, where employees feel well informed and listened to and where they feel empowered to do the best job they can. To achieve this we will:

- Promote ESPO as a great place to work locally and regionally;
- Continue the programme of Staff Briefings which will complement other activities within sections for employees to meet face to face with senior managers;
- Review ESPO's engagement initiatives;
- Manage change effectively by engaging, consulting and supporting employees appropriately and at the right time;
- Engage with Trade Unions and provide appropriate forums and mechanisms for informal and formal consultation.

d. Employee health and wellbeing (Facilities & Environment)

ESPO will have a proactive health and safety culture, where managers identify, assess and minimise risk. We will also be an organisation where our people work hard to make a difference for their customers, but also enjoy work, have a good work/life balance, work within a safe environment and engage in healthy activities and lifestyle choices.

To deliver this we will:

- Ensure all managers are competent in health and safety to sustain a healthy and enabling environment;

- Take appropriate action where the environment is having a detrimental impact on staff and their wellbeing;
- Implement clear operational policies that clearly define the expected health and safety standard within all areas of the Council
- Actively promote and encourage healthy lifestyles and wellbeing programmes for the workforce;
- Reduce sickness absence;
- Implementing the new flexible working scheme to enable staff to have a better work life balance.

e. Employee Reward and recognition

The staff survey indicated that staff feel that their pay is not competitive with external organisations or with other similar posts within the wider organisation. In addition there are staff who have greater potential than their current job requires therefore we need to increase the opportunity for staff to develop and extend their skills and knowledge to benefit both themselves and the organisation. In addition to offering learning and development opportunities we will develop an approach to succession planning.

To deliver this we will:

- Review salaries against other roles in external organisations and across the wider organisation;
- Develop schemes which recognise the contribution of individuals and teams through an award scheme or by individual managers;
- Review the benefit scheme and what is available to ESPO staff.

Appendix 4.1: Staff Survey

In August 2013, ESPO carried out a Staff Engagement Survey, the analysis of which will inform the ESPO People Strategy and Communications Plan, to which staff will be asked to align.

There was a 68% response rate to the ESPO staff survey conducted in August. This is a strong response to such a survey, and provides a sufficient number to form an accurate assessment of staff perception.

Responses indicate a workforce that enjoys working for ESPO, is proud to work for ESPO, and is motivated to see ESPO achieve and exceed its targets.

75% or more of the staff have indicated they 'Agree/Agree Strongly' with the following:

- Hope to be working for ESPO in 3 years;
- ESPO allows me a good work/life balance;
- Individual differences are recognised;
- A sense of job satisfaction;
- Regularly go beyond what is expected of me;
- My line manager supports me;
- My line manager is always approachable;
- ESPO is a trustworthy brand.

The Senior Management Team has reviewed all of the responses to the survey, identifying the following areas for improvement:

- Communications
- Reward and recognition
- Environment and equipment
- Team management
- Learning and development

Its review will be synthesised with the findings of the third-party analyst in order to develop the 'People Plan'.

The Director has created and will sponsor this plan within the organisation, ensure its delivery and report regularly within the organisation and to the Management Committee.

Appendix 5: ESPO Four-Year Medium Term Financial Strategy (MTFS) and Annual Budget Planning

ESPO's original Business Plan was first issued in March 2006 and was presented to the Management Committee in September 2008. It was updated a year later and again went to the Management Committee in September 2009. The MTFS was first drafted in June 2012 and presented to the Finance and Audit Sub Committee in that month. Subsequently it was presented and approved at the June 2012 Management Committee Meeting.

The financial implications of the original four-year strategy document can be summarised in the following table.

ESPO BUSINESS PLAN MODEL		SUMMARY				
	2010/11 Actual	2011/12 Year 1	2012/13 Year 2	2013/14 Year 3	2014/15 Year 4	2015/16 Year 5
	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES						
INVOICED SALES	86.5	83.9	92.4	90.6	95.3	98.8
CONTRACTS & COMMISSIONING	449.1	452.0	445.0	499.0	514.0	529.0
TOTAL	535.6	535.9	537.4	589.6	609.3	627.8
TRADING INCOME	18.1	17.0	17.4	17.6	18.1	18.6
TRADING SURPLUS	3.1	1.8	1.5	1.4	1.6	1.9
MEMBERS' DIVIDEND	1.0	1.4	1.2	1.1	1.3	1.5
USABLE CASH RESERVES	5.9	6.1	6.2	5.9	5.9	6.4
NET WORTH	6.8	7.7	8.4	8.6	9.6	10.7
PROPERTY, PLANT AND EQUIPMENT	11.0	10.8	10.9	11.4	11.9	11.9
LOAN LIABILITY	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0
FORECAST ASSUMPTIONS:						
Price Inflation - Energy		0.2%	15.0%	5.0%	6.0%	2.0%
Stores Income Growth		3.8%	7.5%	5.0%	5.0%	3.8%
Stores Price Inflation		3.0%	1.9%	0.3%	0.3%	0.3%
Stores Volume Growth		-3.3%	5.4%	4.7%	4.7%	3.5%
Stores Gross Mark Up		31.6%	31.3%	29.2%	28.1%	27.5%
Wage Inflation		0.0%	0.0%	1.0%	1.0%	1.0%
Headcount - Stores		196.4	192.8	191.0	192.0	195.5
- Procurement		150.9	168.1	170.2	170.2	170.2
-Total		347.3	360.8	361.2	362.2	365.7
Cumulative Warehouse Efficiencies £k			-160	-490	-830	-1180
Warehouse Payroll Costs as % of Stores T/O		11.76%	10.78%	10.22%	9.71%	9.36%

In November 2012 this was updated as part of the budgetary cycle for 2013-2014 and the ensuing four-year cycle, and this is presented below:

ESPO BUSINESS PLAN MODEL		SUMMARY					
	2010/11 Actual	2011/12 Actual	2012/13 Forecast	2013/14 Year 1	2014/15 Year 2	2015/16 Year 3	2016/17 Year 4
	£m	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES							
INVOICED SALES	86.6	86.5	97.1	91.5	94.9	98.1	100.1
CONTRACTS & COMMISSIONING	449.1	1009.0	445.0	499.0	514.0	529.0	534.3
TOTAL	535.7	1095.5	542.1	590.5	608.9	627.1	634.4
TRADING INCOME	18.1	17.8	17.6	17.6	17.8	17.9	17.9
TRADING SURPLUS	3.1	2.6	2.1	1.6	1.8	2.0	2.0
MEMBERS' DIVIDEND	1.0	1.7	1.4	0.9	1.1	1.2	1.1
USABLE CASH RESERVES	5.9	6.6	6.2	6.8	7.5	8.2	9.1
NET WORTH	6.8	8.5	9.2	9.9	10.6	11.3	12.1
PROPERTY, PLANT AND EQUIPMENT	11.0	11.2	10.9	11.4	11.9	11.9	11.9
LOAN LIABILITY	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0	-6.5
FORECAST ASSUMPTIONS:							
Price Inflation - Energy		0.2%	15.0%	5.0%	6.0%	2.0%	2.0%
Stores Income Growth		3.8%	12.7%	2.9%	1.9%	3.2%	2.0%
Stores Price Inflation		3.0%	1.9%	0.3%	0.3%	0.3%	0.3%
Stores Volume Growth		-3.3%	10.8%	2.6%	1.7%	3.0%	1.7%
Stores Gross Mark Up		31.6%	28.7%	26.6%	25.5%	24.9%	24.5%
Wage Inflation		0.0%	0.0%	1.0%	1.0%	1.0%	1.0%
Headcount							
- Stores Average FTE		196.4	194.7	191.0	192.0	195.5	195.5
- Procurement Average FTE		150.9	150.5	160.0	170.2	170.2	170.2
-Total		347.3	345.2	351.0	362.2	365.7	365.7
Cumulative Warehouse Efficiencies £k			0	200	400	600	800
Other Project Efficiencies			100	150	200	250	300
Warehouse Payroll Costs as % of Stores T/O		11.52%	10.78%	9.72%	9.71%	9.36%	9.30%

Twelve months on from the production of this MTFS clearly events have happened that will influence management thinking. The MTFS is prepared each year as part of the budgetary cycle and it is right that these events and our knowledge of the external environment that we operate in should be incorporated in to the latest version of the MTFS. This will also include actual performance to date driving a forecast for this current financial year and an assessment of 2017/2018 which was not part of the original MTFS.

A draft updated MTFS is presented below. This is in outline only but represents our current thinking based on the assumptions below.

ESPO BUSINESS PLAN MODEL		SUMMARY						
	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Year 1	2015/16 Year 2	2016/17 Year 3	2017/18 Year 4
	£m	£m	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES								
INVOICED SALES	86.6	86.5	94.1	94.2	93.1	97.3	99.6	101.4
CONTRACTS & COMMISSIONING	449.1	1009.0	500.0	510.0	520.2	530.6	541.2	552.0
TOTAL	535.7	1095.5	594.1	604.2	613.3	627.9	640.8	653.4
TRADING INCOME	18.1	17.8	17.9	17.9	18.0	18.1	18.2	18.3
TRADING SURPLUS	3.1	2.6	2.7	1.8	1.8	1.9	1.9	1.9
MEMBERS' DIVIDEND	1.0	1.7	1.5	1.2	1.1	1.2	1.2	1.2
USABLE CASH RESERVES	5.9	6.6	6.2	6.9	7.6	8.3	9.0	9.7
NET WORTH	6.8	8.5	9.7	10.4	11.1	11.7	12.4	13.1
PROPERTY, PLANT AND EQUIPMENT	11.0	11.2	10.9	11.0	11.0	11.0	11.0	11.0
LOAN LIABILITY	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0	-6.5	-6.0
FORECAST ASSUMPTIONS:								
Price Inflation - Energy		0.2%	15.0%	5.0%	6.0%	2.0%	2.0%	2.0%
Stores Income Growth		3.8%	7.0%	4.8%	4.2%	4.4%	2.0%	2.0%
Stores Price Inflation		3.0%	1.9%	0.3%	0.3%	0.3%	0.3%	0.3%
Stores Volume Growth		-3.3%	5.1%	4.6%	3.9%	4.1%	1.7%	1.7%
Stores Gross Mark Up		31.6%	32.3%	31.9%	30.7%	28.2%	28.0%	27.7%
Wage Inflation		0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Headcount - Stores Average FTE		196.4	194.7	191.0	192.0	195.5	195.5	195.5
- Procurement Average FTE		150.9	150.5	160.0	170.2	170.2	170.2	170.2
-Total		347.3	345.2	351.0	362.2	365.7	365.7	365.7
Cost Efficiencies			0	325	492	744	1003	1268
Warehouse Payroll Costs as % of Stores T/O		11.52%	11.35%	10.04%	10.06%	9.66%	9.30%	9.30%

The key financial drivers for the strategy over the next four years were stated as follows and these remain in place.

- ESPO commitment to value for money; the organisation's main objective
- Clear presentation of cost efficiencies;
- Secure and adapt to maintain core business - Grow Stores volume by 20% through competitive pricing and outstanding service;
- A fair return to Members relative to the risk they take;
- Grow the net worth of the business;
- Seek to ensure that the two core divisions of ESPO are profitable in their own right;
- Spread the benefit of ESPO to all users in the form of competitive pricing;
- Radical approach to developing service offering to expand the customer base;
- Minimise risk and maximise opportunities by growing ESPO capability and unique skills;
- Invest in developing staff capabilities and new skill sets.

The key variances to the original MTFS can be summarised as follows:

- Store sales are expected to be 4.9% ahead of the prior year in 2013/2014, this includes 0.3% price inflation. This is 1% ahead of

expectations for this financial year. Two years in to the original four-year MTFS we have achieved 10% volume growth through the warehouse.

- The headcount increases included in the budget for procurement and marketing is being achieved this year though some of the recruitment is happening later than planned. The savings as a result of this have to some extent been offset by higher than expected agency labour as a result of the drive in the July peak to maximise customer service levels.
- Indigo (warehouse picking electronically) has been implemented later than originally planned but we are gradually moving to full implementation by the end of this financial year when it is expected that only a small percentage of picking will be paper based.
- The assumption remains that supplier costs increases will be greater than the average stores prices increases of 0.3% per annum and this will result in lower stores gross mark up over the four-year period. This means more competitive prices for our customers. Supplier margins will become the focus of a strategic project.
- At the end of September 2013 total sales are ahead of budget mainly as a result higher low margin gas sales. Total gross margin is thus just ahead of budget. Total overheads are broadly in line with budget. For these reasons it is not expected that the year end result will be significantly at variance to the original budget.
- An annual allocation to reserves of £400k for building replacement/major refurbishment is included. The building replacement provision was first provided for in 2011/2012 and the assumption is that this will be provided for each year depending on results.

At the end of September 2013 the surplus year to date was £1.4m compared to a budget of £1.2m. The following risks should be considered:

- Competitive activity in the marketplace in particular from YPO.
- Impact on rebate income of the continued sluggish economic performance, particularly in the areas of furniture and food.
- Costs of legal challenges as a result of procurement exercises given the current litigious environment.

The annual budget will be prepared as year 1 of the medium term financial strategy and as such supports the long term plan for the organisation. The plan needs to accommodate financially the Continuous Improvement Programme and strategic projects. These are:

- Spend analytics
- E-tendering system
- Warehouse logistics review
- Stock system/demand planning software
- CRM
- Supply chain management – increasing gross margin into ESPO

Strategic projects/allocations

- Possibly doing a mini catalogue trial nationally
- Provision for increased legal challenges

Appendix 6: Continuous Improvement Plan

The continuous improvement programme is seen as a means of delivering the business strategy. It is envisaged that the delivery of the programme will be aligned to the EFQM methodology.

The projects included in ESPO's current strategy are as follows:

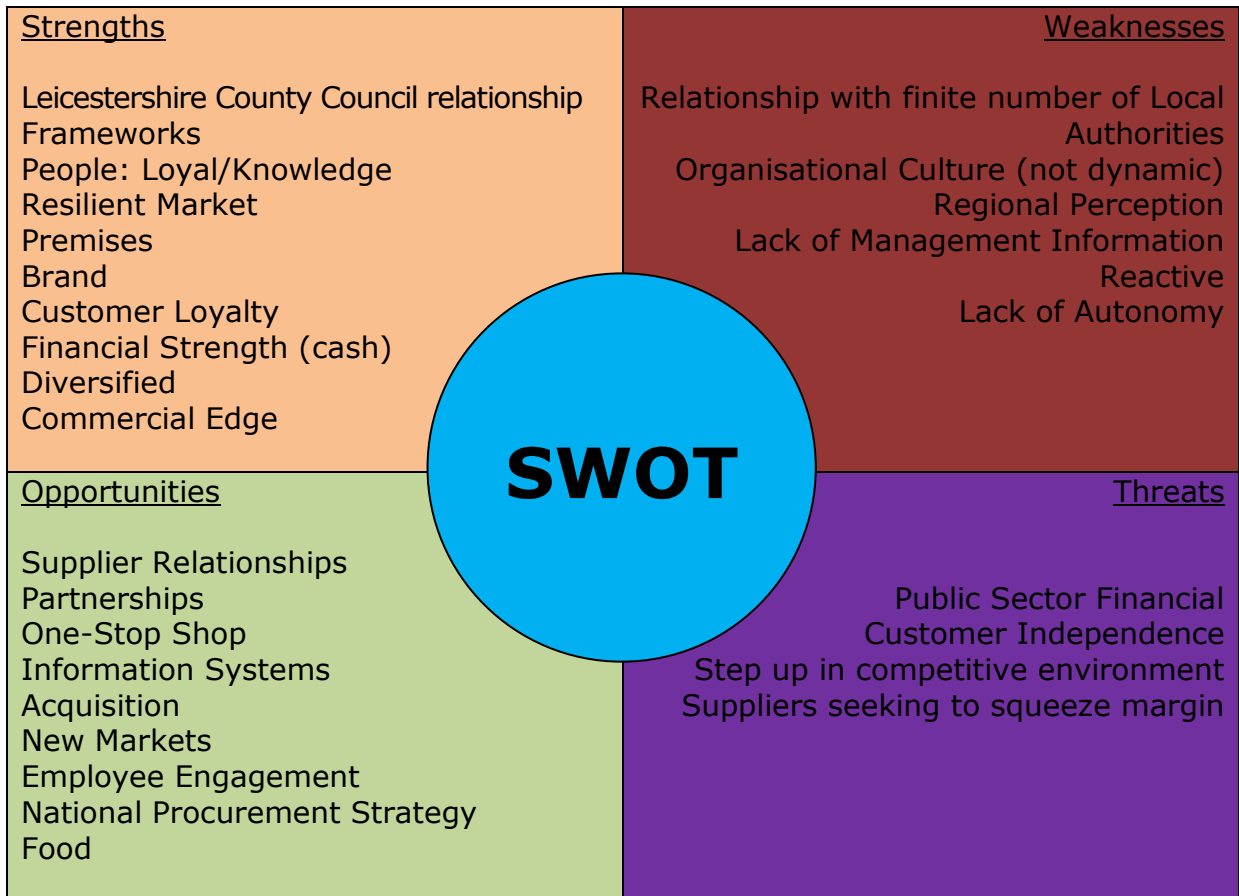
2014/2015 priorities

Project	Description	Owner
E-tendering	Due North system implementation enabling automation of procurement practices	Assistant Director, Procurement & Compliance
Spend Analytics	Understanding of Member-level spend and identify use of frameworks by partners	Assistant Director, Procurement & Compliance
Warehouse & Logistics Review	Transport model & labour productivity	Assistant Director, Operations & Continuous Improvement
Demand planning system	Stock optimisation support	Assistant Director, Operations & Continuous Improvement
Peak Review	Project plan for managing 2014 peak business periods	Assistant Director, Operations & Continuous Improvement
Customer Relationship Management (CRM) System	Account management and customer relationship	Assistant Director, Marketing & Communications
Supplier relationship system	System for managing supplier relationships (and margin), and visibility of direct orders	Assistant Director, Marketing & Communications
GEMS replacement	System for managing energy accounts	Assistant Director, Procurement & Compliance

Ongoing projects with ESPO, being dealt with through the existing structure

Project	Description	Owner
Thought Leadership	Delivery of EU procurement training and expertise to staff of Member Authorities and broader procurement network	Assistant Director, Procurement & Compliance
Indigo Implementation	Roll out automated warehouse picking solution	Assistant Director, Operations & Continuous Improvement
Health & Safety	Implement and embed management system	Assistant Director, Operations & Continuous Improvement
People Plan	Including staff survey response and training	Human Resources Business Partner
Customer analysis	Service level with customer segmentation	Assistant Director, Marketing & Communications

Appendix 7: ESPO SWOT Analysis



Appendix 8: ESPO STEPE Analysis

This STEPE analysis is very broad ranging, and serves the purpose of prompting areas of challenge for ESPO and the needs of its customer base.

Social

- Increased Use of Technology
- Age Profile of Staff
 - Longer Working Lifetime
 - Progress Planning
- Succession Planning
- Work-Life Balance Expectations
- Higher Expectations (Standard of Living)
- Austerity
- Living Wage
- Cost of Living Pressures on our Work Force
- Minimum Wage – Lower Quartile
- Health & Fitness Popularity up
- Experience with Ageing Population
- Physical Capability
- Single Parent Families
- Transparency in Public Life
- Institutionalised Workforce
- Perception of Security In-balance in the way different parts of the Organisation think
- Different Expectations i.e. Contractual Arrangements – Long-term staff stay, new staff short-term
- No Win No Fee claims culture
- East European Warehouse Workforce
- Increasing Immigration
- Ethnic Mix at Work
- Language Barriers

Technology

- Alternative Fuels – Electric Vans
- E-Tendering
- 3D Printers
- Funding Our Own Research
- Product Design Exclusivity
- Online Ordering
- Online Payments
- Web Business
- Customer Order Tracking
- Contract Management Offering
- Warehouse Automation
- Smarter Planning Systems
- IT Update - Important to not get Left Behind – Competitive Advantage

- SIMS System
- CRM & Databases
- Customer/Peer Group Forums & Communications
- Data Protection Issues
- IT Procurement Expertise & Increasing Importance
- Schools iPads

Economic

- Euro versus Pound
- Social Enterprise/Mutuals
- Low Interest Rates
- Low Inflation
- Fuel Inflation
- Cost of Living Challenges
- Household Incomes Static
- Customer Insights/Market Insights
- Improving Economic Climate – UK/EU/Global
- Coming out of Recession, are we well-placed – Capacity
- Exchange Rates Fluctuation
- Framework Users Shopping Around – but Marginal Benefit (a la Energy Switching) – Need New Areas
- Private Sector Competition - Benchmark Performance
- Market Intelligence
- Unemployment Legacy from Austerity – last thing to catch up
- Increasing Global Influence
- Education Customers More in Control of their Spending Decisions
- Expansion Outside of Area for ESPO
- Academies
- Different 'Forms' of Competition – Price/Service/Technology
- Schools Working Together to find Buying Solutions
- Mergers and Acquisitions Activity Set to Increase
- Industrial Productive Capacity Reducing
- Boom & Bust Economies
- Crown Commercial Services Activity in Our Space – partnering
- YPO Priorities
- Too Many Suppliers – Long-term Relationships
- Supplies – Access to Public Supply Chain is Key – Big Reaction if Not Successful
- Ordering Long-term could bring Supplier Costs Down

Political and Legal

- Membership of Europe
- UK EU membership – Procurement Law
- Change of Government
- 2015 General Election
- Conservative or Coalition
- European Elections – UKIP/Referendum
- European Procurement Legislation
- Risk Appetite
- Risk Management Strategy

- Risk/Reward Ratio re Litigation
- Government Spending Plans/Election
- TUPE Changes/Redundancy Changes
- Local Authority Future
- New School Curriculum 2014
- Schools Curriculum

Environmental

- Product Range
- Expectations associated with Being a Local Authority Organisation
- Supply Chain Sourcing
- Risk – Sweat Shop Products, need to have an answer
- Customer Expectations – Value of Green versus Price versus Fm Fuel Surcharge
- Health & Safety
- Fuel Pricing
- Ethical Sourcing
- Differentiator to the Competition – the Greenest
- CSR
- Carbon Footprint
- Emissions of Vehicles of the Fleet
- Bundling Green Frameworks
- Market Segmentation of Green Products – Will it work the same in all areas?
- Environmental Legislation
- Compliance

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Appendix 9: Review of Previous Eighteen-Month Targets

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
<p>To increase Stores turnover by 20% in volume Clive Pitt</p>	<p>8.1%</p> <ul style="list-style-type: none"> The Office Supplies contract has been established, and customers are diverting business to it. ESPO has enjoyed Phonics business this year, and has seen an up-lift from new customers buying in to the broader ESPO offering. ESPO has continued to grow in its targeted areas Tactical campaigns have continued, and include voucher offers for Phonics, discounting in target geographies, and tactically in the West Mids. GP sales have been piloted in Warwickshire. Whilst not a great commercial success, 	<p>3.72%</p> <ul style="list-style-type: none"> A direct supply arrangement for Office Supplies has been established to meet Member Authority requirements. This is delivering savings for Member Authorities but a reduction in ESPO turnover. Marketing of the new Office Supplies contract will see increased turnover and ESPO rebate income. New AD – Operations & Continuous Improvement in post since May 2013. ESPO enjoyed Phonics business this year, but match funding ends 31/10/2013. Phonics Countdown Campaign planned for September/October to maximise Phonics sales 	<p>5.34%</p> <ul style="list-style-type: none"> Marketing of the new Office Supplies contract will see increased turnover and ESPO rebate income. Sales and marketing campaigns to be based on recency, frequency and value data.

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
	sufficient learning have been gained to extend the trial in to Solihull.	<p>during this period.</p> <ul style="list-style-type: none"> • Tactical campaigns continue, and include voucher offers for Phonics, discounting in target geographies, and tactically in the West Midlands. • Main catalogue development plan to be developed, outlining how to generate Stores growth and cover short/medium/long-term by November 2013. • Account Manager area growth plans being developed. 1-2-1 feedback meetings set up with individual plans presented/discussed October 2013 	
<p>Strengthen school engagement by creating a dedicated resource for schools Trevor Phipps</p>	<p>Being established through the procurement and marketing restructure.</p>	<ul style="list-style-type: none"> • An Education Hub has been established through the Procurement and Marketing Divisions restructure. • Further development of EduBuy (originally 	<ul style="list-style-type: none"> • Start bulk projects for schools e.g. specific equipment, mini buses etc.

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
		implemented in early 2012/2013 as a means of 'signposting' schools to available frameworks)	
Create Value selections within product catalogues Kevin Willsher	Value range developed to include cleaning, hygiene, art and design. Expect a 'development trial' in Stationery mid-2013.	<ul style="list-style-type: none"> • Value ranges being developed. Expect 'development trials' late 2013. • Product range review to be undertaken as part of Catalogue Development Plan. Completed by Q2/2014. • More and better marketing intelligence and information will be provided for category teams 	
Rigorously evaluate options for lowering delivery costs for Stores items David Godsell	<ul style="list-style-type: none"> • Product range has been rationalised, particularly around ring binders and filing solutions. • Other areas are currently work in progress. • Delivery frequency review has taken place in Norfolk and Leicestershire, with certain segments increasing or 	<ul style="list-style-type: none"> • Get smarter information re customer order lines by sector/order lines • Look to two tier customer service/help desk and telesales operation. 	<ul style="list-style-type: none"> • Revisit transport and logistics operation

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
	<p>decreasing frequency.</p> <ul style="list-style-type: none"> Note that this has been aligned to the 'green agenda' particularly in Leicestershire. 		
<p>Implement e-commerce Kristian Smith</p>	<p>The first stage of the e-tendering process is to ensure customer participation, system design and procurement. This will provide a basis for all procurements, a portal for such activity and e-storage of all documentation. ESPO is working with the East-Midlands Heads of Procurement, and will be at system procurement stage by March 2013.</p>	<ul style="list-style-type: none"> ESPO has completed system procurement on an East Midlands Heads of Procurement initiative. This will procure an E-Tendering solution to support ESPO's operational requirement internally – and also provide a common platform solution across the East Midlands region. Due North have been awarded supplier status and a regional implementation plan is being agreed, with the solution rolled out in phases. ESPO is also updating its telecoms infrastructure in order to ensure sufficient data management capabilities. Transfer of data from Consys to new contract management system (Phase 3) 	<ul style="list-style-type: none"> Continue to roll-out e-tendering system Develop capability and capacity across various e-commerce systems and platforms, including marketplace(s), to accept, without intervention, orders into the ESPO back office system. This includes building on key relationships with Capita (SMS) and alternative school system providers in particular. Ambition for 2014/2015 is to grow customer e-orders from 20% (target for 2013/2014) to 40% in 2014/2015).
<p>Delivery and managing more national frameworks (the next 'MSTAR') Kristian Smith</p>	<ul style="list-style-type: none"> Delivered, ESPO led contract with YPO and GPS. Framework expected to be completed by June 2013 	<ul style="list-style-type: none"> Telehealth and Telecare Banking Services Consultancy Services Advertising & Recruitment 	

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
	<ul style="list-style-type: none"> Professional services team, Social care (incl. Tele-health) team and FM team to be delivered as a result of the procurement and marketing restructure, by end of March 2013. 	<p>Services framework completed in 3 lots, 2 of which are in place with the third to be completed later this year.</p> <ul style="list-style-type: none"> Professional Services, Social Care (including Telehealth), Environmental Services & Waste Management and Building & FM teams established as a result of the Procurement and Marketing Divisions restructure. 	
<p>Improving ESPO's marketing capability Trevor Phipps</p>	<ul style="list-style-type: none"> Established, and to be updated to include current market and customer challenges for 2013/2014 Health market intelligence increased with GP project and care category. DfE relationship established and further cemented through Phonics, EduBuy and potential for Phonics II Marketing and customer surveys completed. 	<ul style="list-style-type: none"> Implement CRM system New Assistant Director – Sales & Marketing now recruited and in-post since 24/06/2013. Strategic marketing plans to be developed, and will be updated to include current market and customer challenges for 2013/2014. Communications Manager recruited and in-post since 08/07/2013. Initiatives are already underway to improve internal communications, maximise PR and develop the ESPO website. 	

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<p>Strengthen Supply Chain management Trevor Phipps & Kristian Smith</p>	<p>Improved supply chain management, and contract management to be delivered as an outcome of the current restructure.</p>	<ul style="list-style-type: none"> Review/replenish software Dedicated team established. Objectives for 2013/2014 will be to implement new supplier classification system and a new ABC analysis of supply chain management. Customer experience from Direct Suppliers to be investigated. Focus to improve supply chain (non-delivery rates/ late deliveries/customer service). Draft Direct Suppliers action plan expected by end-September 2013. 	<ul style="list-style-type: none"> The emphasis will be on fine-tuning the ABC supply chain analysis and embedding the same relationship management principles into D and E suppliers. Product availability KPI will be redefined according to product category and its direct impact on our customer groups. Current KPI is 98% and we will redefine targets that will include 100% availability for certain product types.
<p>Explore moving to Joint Procurement Kristian Smith</p>	<p>Relationship with YPO diluted from previous path. Common buying opportunities and relationship building with GPS ongoing. GPS relationship strengthened through an MOU, umbrella agreement, and three specific procurement contracts.</p>	<ul style="list-style-type: none"> New Assistant Director – Procurement & Compliance will continue to develop strategic procurement relationships where it is in ESPO’s interests to do so. 	<ul style="list-style-type: none">
<p>Develop the Learning Organisation to support the strategic goal Sue Whitham</p>	<p>A marketing suite of knowledge, to be shared with Members, existing and potential customers for Energy, Food, FM and Fleet will be ready by Easter for</p>	<ul style="list-style-type: none"> SMT member now overseeing L&D across the organisation to ensure consistency. SOG annual work plan includes L&D – continue to 	<ul style="list-style-type: none">

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	<p>distribution – reinforcing ESPO as a resource of procurement knowledge as well as frameworks.</p> <p>A primary task following the restructure is to ensure that each category area has reviewed the market place, informed ESPOs participation strategy, but also created a bank of knowledge in a format to be shared with Members and customers – 2013/2014</p>	<p>develop areas of learning which are common and beneficial to Consortium Member Authorities.</p>	
<p>Implement continuous programme of staff development Sue Whitham</p>	<p>1-2-1 meetings in place at senior level. Performance management framework to be further embedded during 2013/2014</p>	<ul style="list-style-type: none"> • 1-2-1 meetings in place at senior level and now being extended to middle managers. • PDRs being rolled out in line with SMT timetable. • Performance framework to be further embedded during 2013/2014. • Further workshops on performance objectives scheduled for autumn 2013. • Staff survey planned to influence Staff Action Plan. 	
<p>Rebate Management Kristian Smith</p>	<p>Controlled as part of the financial process, but increasingly to be proactively managed through the category</p>	<ul style="list-style-type: none"> • Rebates controlled as part of the financial process, but are increasingly managed through the Category teams as part of 	

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	teams as part of more robust supply chain management – 2013/2014.	a more robust supply chain management.	
Cost Monitoring Clive Pitt	ISYS system whereby time can be recorded and charged back reliably has been budgeted and will be implemented to coincide with the restructure.	<ul style="list-style-type: none"> • Implementation plan now being prepared. • Delegated budgets finalised and being cascaded in line with MTFS. 	<ul style="list-style-type: none"> • Review of charging for fee-based procurement activity undertaken.
Spend Analytics Kristian Smith		<ul style="list-style-type: none"> • ESPO undertaking work to establish an ESPO spend analytics and infrastructure solution, being informed by SOG. 	
Training Kristian Smith		<ul style="list-style-type: none"> • ESPO undertaking work with SOG on developing formal procurement training and networking opportunities for Members and regional procurement professionals 	
Warehouse and Logistics Review David Godsell		<ul style="list-style-type: none"> • Formal review of the warehouse and logistics review to be instigated. 	