



ESPO MANAGEMENT COMMITTEE –
25 SEPTEMBER 2014

DIRECTOR'S PROGRESS UPDATE

Purpose of Report

1. The purpose of this report is to update members of the actions and progress made since the last ESPO Management Committee meeting held on 26 June 2014.

Overall Financial Performance

2. Overall financial performance for the three months to August 2014 can be summarised as:
 - Sales to August at £37.6m are behind budget of £40.9m principally down to lower Gas sales which are weather dependant (see table below);
 - Rebate income is £1.5m compared to a budget of £1.4m and is tracking comparably with the prior year, indicating a continued engagement in ESPO's procurement solutions;
 - Overall surplus for the year to date is £0.86m compared to a budget of £0.89m.
3. Key figures underlying the total sales to August 2014 are as follows:

	<u>YEAR TO DATE</u>		
	ACTUAL £m	BUDGET £m	PRIOR YEAR £m
<u>SALES</u>			
STORES	19.990	19.733	19.433
DIRECT	7.854	7.403	8.049
GAS	7.510	11.456	9.741
CATALOGUE ADVERTISING	0.732	0.847	0.839
REBATE INCOME	1.492	1.392	1.500
MISCELLANEOUS INCOME	0.040	0.077	0.100
<u>TOTAL SALES</u>	<u>37.618</u>	<u>40.908</u>	<u>39.662</u>

Balanced Scorecard

4. The balanced scorecard is attached as Appendix 1.

External Activities and Developments

PBOs, Pro5 members and beyond

5. The marketplace for procurement solutions and the provision of stationery and education consumables continues to evolve. I continually scan the market place for developments and emerging trends. As part of this process, it is becoming clear that there is an increasing presence of alternative business models in our marketplace, ranging from private sector provision and council-run businesses to limited company offshoots of other PBOs (YPO being a recent example). These changes may feature as external influences in the next strategy update.
6. As well as differing operating models, these are increasingly organised to deliver differing levels of shareholder funds, or member surplus. This will be a further consideration as part of the next MTFS update.
7. As previously reported, ESPO has invited all Senior Officer Group members to training sessions without charge being held 16 September, 14 October, 18 November and 11 December. These are on the interpretation and benefit realisation from the forthcoming new EU procurement directive. The offer has been well received with a total of 35 members attending across the four sessions, representing Cambridgeshire County Council, Leicestershire County Council, Lincolnshire County Council, Peterborough City Council and Warwickshire County Council.
8. ESPO has been working with the Senior Officers' Group (SOG) to progress a member-wide spend analytics programme which will enable members to focus efforts on the areas for the highest potential savings. Contingent on sufficient member interest, ESPO would commit £15k to the development of Lincolnshire's LCAT spend analytics tool, which will allow SME data mapping not currently available through the existing system. Leicestershire, Warwickshire, Cambridge City and Lincolnshire have expressed their interest with Norfolk considering its participation. ESPO officers have drafted a data sharing agreement for signature by participating authorities.
9. I have met with Crown Commercial Services (CCS) to explore procurement and commercial opportunities and to review progress on ongoing collaboration.
10. On 10 July 2014, a Police Category Open Day took place at ESPO to further inform developments in the market and encourage broader usage of ESPO solutions, focussing primarily on frameworks.
11. ESPO led a Pro5 Directors' Meeting on 23 June 2014. Discussions centred on the response to the National Procurement Strategy, and the Select Committee hearing. This has led to planning a session inviting a broader collection of Public Sector procurement organisations to consider the challenges from the

Select Committee. This will make it more sensible to consider 'place' from a procurement perspective.

ESPO Internal Developments

Member Liaison

12. I continue to meet members on a quarterly basis to discuss key themes which are arising and any items pertinent to members' specific needs. We discussed the logistics review which has since been accepted by Management Committee. We further discussed the next MTFS iteration for ESPO.

People Plan

13. The people plan is informed by the staff survey which last year highlighted issues related to the following:
 - Communication
 - Reward and recognition
 - Investment in resources
 - Leadership and team management & Learning and development
 - ESPO brand
14. Significant inroads have been made into addressing these. The 2014 staff survey was issued to ESPO staff in August and should further inform us of progress made and further challenges to be considered.
15. To address space constraints particularly evident during peak and the catalogue production period, ESPO has asked Leicestershire County Council's Corporate Property Steering Group to assess the opportunity to take on a three-year lease of ninety square metres of office space which has become available across from ESPO's building. This has been discussed informally with members and officers prior to this report. Members will be asked to support this proposal.

Audit Reports

16. Internal audit carried out a Budget Management audit reported in Q1 to confirm that there is a sound framework for the control of the budget. There were no issues to escalate.
17. On 28 July 2014, ESPO had an external VAT audit following its submission of a £250k repayment claim following the March VAT quarter. The verbal feedback from the inspector was positive and we expect the repayment to be made shortly. This was the third HMRC audit visit in the last two years, the others being for VAT and the Climate Change Levy. No audits revealed issues; our procedures are good.

Sales & Marketing

Website and IT

18. The new ESPO website was launched in August 2014, after overcoming minor bugs in the customer registration process. The site is now much more user focussed (rather than 'corporate'), and highlights a number of new features including the procurement work plan. Comparing it to the same period last year, it has attracted over 20% more individual users and over 60% more page views. Our most visited pages are the home page, frameworks, search feature, catalogue and registration with the most visited frameworks being banking and consultancy.

Campaigns, activities and newsletters

19. ESPO has been proactive in the Government's Universal Free School Meals initiative. Working closely with the 'Lead Association for Catering in Education' (LACA) and key suppliers, a three-month campaign has been promoting ESPO's Catalogue and Catering frameworks, offering solutions to a wide range of requirements from food and beverage products, cashless payment, solutions to furniture and school dining rooms. Our marketing and roadshows have proven to be successful, driving sales and enquiries from schools across the UK.
20. To focus on the next phase of Universal Free School Meals, a new food and catering brochure was developed featuring ESPO's catering and food frameworks. Commencing 8 September 2014, the brochure is being launched to 20k academies and schools through nine LACA roadshows across the UK.
21. A new ESPO Essentials catalogue featuring our Top 800 value product lines was launched in September 2014 as part of our 'Back to School' campaign. This heavily features ESPO Smart Buy products and introduce a brand new category of Tea and Coffee products. Focus is on low prices, good value and top selling lines.
22. As part of the refreshed PR strategy, ESPO undertook a strategic piece of procurement research with the Chartered Institute of Purchasing & Supply (CIPS) members. Survey results will be used to create three key themes that can be pitched to procurement, public sector, and local government press. We may also be following on from the survey with a number of other activities such as a roundtable and whitepaper which would give ESPO the chance to investigate these topics in greater detail.
23. A Customer Survey is planned for October, to obtain school and corporate customer feedback. Topics are likely to include delivery, customer service, product range, frameworks and pricing and will begin to re-examine ESPO's current Customer Service proposition, delivery promises, product range and what is important for our customers.
24. Category Development Plans from Product Managers will be finalised by the end of September, which will give a greater focus on category growth, revenue, product development and supplier funding and feed into ESPO's 2015/16 catalogue.

ESPO Risk and Governance Update

Annual Review of Organisational Approach to Risk Management

25. Further to the discussion at the May COG, an updated risk policy and risk register were presented as a paper to the June 2014 Management Committee. Outcomes of this are noted in the Finance & Audit Subcommittee minutes. A review of ESPO risk is to be arranged for autumn 2014 at which COG members will be invited to contribute towards further shaping the ESPO risk strategy. We will attempt to align this with the next COG meeting on 27 October 2014.

Pre-Procurement Panel Referrals

26. There have been no items referred to the Senior Management Team in this quarter.

Partnership Agreement/Leicester City Exit Update

27. I am pleased to report that both the deed of exit for Leicester City Council to leave the Consortium (backdated to 31 May 2014) and Partnership Agreement for the remaining six Authorities and have both now been signed and agreed by all parties, dated 14 July 2014.

Servicing Authority Service Level Agreement (SLA)

28. Now that the Consortium Agreement has been finalised, the SLA with Leicestershire CC for the provision of those services as set out in the agreement has been revised. In the spirit of transparency, this will form the basis of an annual report to the Finance & Audit Subcommittee.
29. The Consortium Agreement also allows for the servicing authority to provide ancillary support services 'as may be agreed by the Management Committee ensuring the most cost effective approach for the Member Authorities'. As part of the internal fleet review, a significant saving of £46k has been identified arising from the transfer of the fleet maintenance contract to LCC.
30. This change in the vehicle maintenance contract to LCC is in keeping with the direction provided by VOSA last year, whereby the ESPO fleet is to be governed and managed under the supervision of the Operator's License held by LCC. This change was updated under separate cover directly to members at the start of September.

Efficiency projects

31. The balanced scorecard for 2014/15 measures progress on key strategic projects. For 2013/14, the balanced scorecard monitored progress against a list of 46 projects. I was invited by the chairman to provide an update of these projects.

32. These were a mixture of strategic and operational projects of various sizes. Thirty-two of those projects were implemented.

In the warehouse:

- Upgrade of lighting in four areas
- Evaluation of stores (electronic picking)
- Evaluation of the stock replenishment system
- Improved fuel management through SAFED driver training
- Evaluation of agency driver use
- Reduction in vehicle damage costs
- Improvement in fleet quality through better maintenance
- Improvement in stock forecast and demand management
- Review of Christmas closure
- Review of default customer delivery in main areas

In the offices:

- Upgrade of lighting
- Increase in electronic ordering
- Increase in electronic invoicing of catalogue products
- Maximisation of 14-day cash discounts
- Standardisation of procurement documentation and processes
- Launch of an e-tendering system
- Development of a Members' portal
- Centralisation of the Contracts section
- Update of website content and subsequent redevelopment
- Solution for document storage
- Facility to provide e-Auctions

Throughout the business:

- Implementation of a 'Go Green' environmental initiative
- Provision of a secure bicycle shelter
- Monthly meetings of the extended Senior Management Team
- Implementation of Performance and Development Reviews (PDR)
- Review of personnel function and adherence to sickness management processes
- Implementation of online recruitment

33. Of the fourteen remaining projects, three were aspirational and are not currently being pursued including the installation of photovoltaic roofing, alternate power usage, and waste water collection. Two projects were considered not to be viable or only able to be implemented in part including the use of returnable cartons and improvement of Consys (the contracts database). Six projects are ongoing at an operational level and include risk and business continuity, the update and redevelopment of the ESPO intranet, the improvement of rebate and fee income monitoring through ISYS, implementation of a Staff Suggestion Scheme, the quality of stores' packing, and review of the expediting function to improve stock replenishment.

34. Two strategic projects, the Customer Relationship Management system (CRM) and the replacement of the GEMS energy platform, have come forward onto the 2014/15 projects.
35. All of the above projects contributed to the better than budget surplus delivered in 2013-14, which included an allowance for efficiencies, and will provide ongoing benefits in the years ahead.

Resources Implications

36. The proposal to take on a three-year lease of ninety-two square metres of office space carries a cost of £15k per annum for the three-year period of the lease. The estimate of other costs such as maintenance, service and rates is estimated at circa £10k per annum.

Recommendation

37. Members are asked to:-
 - a) note the contents of the report; and
 - b) agree in principle to the short-term lease of office accommodation (detailed in paragraphs 15 and 36 above) and to authorise the Director to enter into a lease agreement for a period of three years accordingly.

Officer to Contact

John Doherty, Director
J.Doherty@espo.org, 0116 265 7931

Appendices

Appendix 1: Balanced scorecard

This page is intentionally left blank