

MANAGEMENT COMMITTEE – 25 NOVEMBER 2020

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Briefing Note

- The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 16 September 2020.

Overall Financial Performance

- Overall financial performance to September 2020 is outlined below:

Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE SEP-20					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	24,143		27,108		26,529	
DIRECT	7,150		9,881		9,685	
GAS	5,018		5,012		6,093	
CATALOGUE ADVERTISING	685		698		736	
REBATE INCOME	3,948		3,494		3,409	
MISCELLANEOUS INCOME	2		77		147	
TOTAL SALES	40,946		46,269		46,598	
TOTAL MARGIN	13,258		13,865		13,374	
TOTAL EXPENDITURE	10,167	24.8%	10,396	22.5%	9,794	21.0%
As % of Total Sales Excluding Gas		28.3%		25.2%		24.2%
TRADING SURPLUS	3,092	7.6%	3,469	7.5%	3,580	7.7%

- A financial reporting and planning paper is covered elsewhere on the agenda; summary information is provided below:
- Since July we have seen a pick-up in catalogue sales compared to earlier in the year with catalogue sales in July being within 5% of budget, August within 4% and in September actually beating budget by 2%.
- For September YTD catalogue sales were £31.3m which was £5.7m or 15% below budget and 14% below last year. Within this, stores sales were 11% below budget but direct sales were down 28% versus budget.
- Rebate income September YTD has been strong at just under £4m, which was £0.45m (+13%) ahead of budget 16% ahead of this time last year. The full year outlook for rebate income remains in-line with budget at approx. £8m, so the increased rebate income in September YTD is effectively the result of timing differences and is expected to reverse in later periods.
- The gross margin % in catalogue sales has been ahead of budget and last year but, despite this, the shortfall in overall catalogue sales has resulted in a £1m shortfall in catalogue gross margin compared to budget.
- Opex costs September YTD at £10.2m were £0.2m below budget.
- The effect of all of the above is that the trading surplus for September YTD was £3.1m versus a budget of around £3.5m.
- The full-year re-forecast of ESPO's P&L presented at the June Management Committee for 2020/21 indicated a full year surplus in the range of £3.5 to £4.0m. Given the continuing risks around COVID, in mid-October we undertook a "bottom-up" exercise to reforecast the out-turn for 2020/21 based on the latest view on sales from our sales team and updated cost forecasts.
- Our conclusion from this is that although our trading performance is expected to remain consistent, the costs that the business is facing have increased. On balance, we still feel optimistic that we can hit our overall forecast at the upper end of the range, but are not planning to raise it further.
- The balanced scorecard is attached at Appendix 1.

ESPO Operational Progress

3. In September the distribution centre processed £4.9m of customer orders and the transport fleet with couriers made 26,380 customer deliveries. Warehouse picking was performed at a rate of 26 lines per hour. Covid-19 related social distancing measures, reduced shift lengths (15 mins per shift) and back-order processing have continued to impact on productivity throughout the period.
4. All new agency staff underwent a thorough Covid-19 induction training protocol which has further impacted productivity. The error rate detected by QA was 0% which is below the target of 3%. The average order value for stock orders in September was £187.73 which is £5.89 higher than this time last year. Operational and supply chain YTD costs were £5.660m against a budget of £5.837m, which is £177k below budget.
5. In the busy back-to-school period the customer services team processed 31,192 customer orders. Direct orders currently valued at £1.954m are being managed from suppliers to customers, a total of £489k are overdue and the suppliers are being expedited by the customer services team. The team handled 16,275 telephone calls, which is 20% higher than Sept 2019, with an average waiting time of 41 seconds against a target of 30 seconds and a 13.9% abandon rate.
6. The customer service team have seen significant demand during the September period, call lengths have been impacted due to the difficulties we have faced in the supply chain for some of our key stock products and with our direct delivery partners who are experiencing delays in manufacturing of products. ESPO's FEEFO customer service rating was 86% which although slightly down on expectations indicates broad customer approval under the difficult external circumstances.
7. Changes have been implemented to the telephone call-waiting system in customer services to provide an improved customer experience. We now offer an improved sound menu option to ensure that callers get to the right team that can help with an enquiry as quickly as possible. Customers are now advised of the average wait time for their call to be answered. Promotional messages have been included to inform customers of the great offers and services that ESPO offer. These messages have been professionally recorded using studio artists and can be changed dependent on our seasonal offers throughout the year. This will provide a much-improved front end experience for our customers, with a consistent and vibrant ESPO brand at the first point of contact.
8. We have also provided proactive messages to our customers through order acknowledgements, invoices and delivery notes to keep customers informed of price changes and out of stock items. In the context of supplier availability difficulties this has helped ESPO customers make informed decisions on their outstanding orders.

9. The stock optimisation team-maintained product availability at 95.4% with 460 lines out of 9,871 temporarily unavailable; stock value was £7.7m with a stock turn of 5.49. Stock values increased when budgeted product sales in April and May fell by £2.6m due to Covid-19 school closures. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at KCS in Maidstone and by its printer in Poland. Product availability has deteriorated in some categories as a result of supplier's reduced capacity or of delays in the international supply chain. This coincided with unprecedented demand for PPE and cleaning materials. Alternative products have been sourced, in some categories, when existing suppliers were unable to fulfil back orders. Consequently, there is a higher than average number of customer enquiries and increased operational processing costs to clear small back orders as partial deliveries of stock are received.
10. Facilities management in September included warehouse and office lighting repairs; scissor lift maintenance and inspection; server room fire inspection & integrity test; sprinkler valve servicing and various modifications, repairs and maintenance of equipment throughout the building. Site signage incorporating H&S messaging have been replaced around the premises and at each entrance.
11. In terms of health and safety there were three reported accidents in September a minor irritation to a warehouse operative's eye due to dust; a member of the maintenance team sustained a cut to the left middle finger whilst using a Stanley knife to cut door trims which required steri-strips; a warehouse agency picker experienced pain in his hip following manual handling – no first aid was required.
12. ESPO's building remains Covid-19 secure and monthly Covid-19 self-assessments are returned to the Leicestershire County Council (LCC) recovery group. There is continued monitoring and increased cleaning schedules by in-house staff and external cleaning contractors. The Health & Safety team are managing the access to site. A JCC meeting was held virtually and no health and safety issues raised by either UNISON or GMB unions.
13. ESPO's IT team are reviewing a cloud-based VOIP telephony solution to replace the current infrastructure. This will enable calls to be diverted and handled by all ESPO staff working remotely through a variety of devices such as lap-tops, tablets, desk tops and smart phones. We have replaced a server from Virgin Media and have created a failover connection to a separate server to build resiliency in the event of internet connectivity issues. ESPO are working with LCC's Chief Digital & Information Officer and her senior team to discuss alignment of IT policies and practices between ESPO and LCC and the refresh plan was endorsed.
14. ESPO has been tasked with the storage and distribution of emergency PPE to local authority settings agreed by the LRF as part of a national initiative through

the Department of Health. Additionally, a fresh batch of ambient food parcels are being stored for distribution to vulnerable households.

Staffing

15. Sickness absence still continues to be well managed over this period and despite the covid-19 pandemic, our overall low levels of absence continue to be maintained. Managers remain fully embedded with our approach and they continue to work with HR to implement appropriate support plans to help individuals return to work in a timely manner. Over the month of October 2020, ESPO staff have averaged a 12-month rolling figure of 6.6 days sickness absence. This remains below the target set by Leicestershire County Council of 7.5 days.
16. Regular interaction with managers and staff has been maintained through manager forums, Heads of Service Meetings, Team Meetings and Director briefings. Regular discussions with our Trade Union meetings have also continued over this period. All of these have all ensured that vital messages and updates are disseminated throughout the organisation and that staff are also fully supported in their role. Staff newsletters have also continued to be issued every week, and work-related issues are also shared and discussed at the Employee Engagement Group, which has been reconvened via Microsoft Teams.
17. At the height of the pandemic, ESPO had just under 100 members of staff placed on furlough leave. This number swiftly reduced as schools started to reopen and our level of business increased. Due to the governments Coronavirus Job Retention Scheme now being extended and a new national lockdown underway, a small number of staff will return to being on furlough leave. This number of staff will be much smaller, and is expected to be less than 10 individuals, who are either classed as being clinically extremely vulnerable, or who work in areas such as our customer reception which is now temporarily closed.
18. Given the unprecedented trading year the Leadership have agreed not to contact an employee of the year competition, not wishing to recognise some colleagues over others when everybody has contributed (and in different ways and circumstances). As we have also been unable to undertake in year work to support our nominated charities, instead the money normally reserved for the Employee of the Year Awards will be designated to the charities Redgate Animal Sanctuary and Leicestershire Help for Mental Help.

ESPO Risk and Governance Update

Health, Safety, Wellbeing and Facilities Management & Corporate Risk Register

19. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) and the top risks are attached at Appendix 2.

Resources Implications

None arising directly from this report.

Recommendation

Members are asked to note and support the contents of this report.

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Appendices

Appendix 1: Balanced Scorecard

Appendix 2: CRR extract