

MANAGEMENT COMMITTEE – 23 JUNE 2021**PROGRESS UPDATE****REPORT OF THE DIRECTOR****Purpose of the Briefing Note**

1. The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held 17 March 2021.

Overall Financial Performance

2. The Finance and Audit Sub-Committee considered the Draft Outturn 2020-21 and budget setting 2021-22 report at its meeting on 26 May 2021. A full finance report to Management Committee for approval is covered elsewhere on the agenda.

Executive Summary

3. For the full year a surplus of £4.6m has been created. This is £0.7m lower than the original budget (which was approved before the Covid pandemic).
4. The £4.6m surplus is better than the latest guidance issued to Management Committee in March 2021, which estimated the surplus to be circa £4.0m. Schools reopened on the 8th March and trading in March far exceeded our expectations throughout the entire month. Pleasingly, the positive momentum which started in March has continued into April and May.
5. In addition, as we start to emerge from the pandemic with greater optimism, and recognising the challenging financial position that some members may find themselves in, we have taken the opportunity to review our balance sheet in detail at the year end and slightly reduce the level of prudence in some assumptions to a more normal level.
6. The £4.6m trading surplus is a pleasing result, albeit less than last year. We estimate therefore that the dividend to owners will be approximately 17% lower than the previous year.

Financial Performance**Sales and Margin**

7. Sales for the year reached £79.0m and were 10% lower than both budget and last year. Rebate income from our frameworks remained strong and delivered £8.3m which was £0.2m ahead of budget.

8. Stores sales were £41.7m which were 7% lower than budget.
9. Stores gross profit margin was 31.1% which was 1.4%p (percentage points) higher than budget and 2.0%p higher than last year.
10. Directs sales were £15.0m and 22% lower than budget. Customers delayed from purchasing some of the bigger and less priority items (white goods, tables, chairs, storage) with their focus shifted to responding to the Covid crisis.
11. Gas sales of £13.1m were 13% lower than budget, with lower consumption by customers from building closures/reduced occupancy linked to Covid restrictions. Our gross profit margin % on gas is very low at 2.4% and so this had minimal impact on overall profitability.
12. Rebate income at £8.3m has continued to grow, even during the pandemic, and is ahead of both budget and last year.
13. Catalogue and other income are largely in line with budget, although we did see lower investment income as a result of ceasing investing our cash deposits at the early stages of the Covid pandemic (18th March 2020 – 12th June 2020) when there was a high level of volatility. After this, funds were gradually reinvested in stages but interest rates have remained very low.

Expenditure

14. Total expenditure at £20.0m is in line with budget and overheads have been tightly controlled across the business in a challenging year.
15. Overheads as a % of sales (excluding gas) is 30.4%. Whilst 2.8% higher than budget this is consistent with the trend seen during 2020/21. This comes from lower sales volumes, and a limit on the extent to which our cost base can be flexed down when we see a large reduction in sales. We also saw additional costs to operate in a Covid-Secure way including additional IT costs to support working from home, and in the warehouse the introduction of zonal picking to enable social distancing and a 15-minute reduction in shift length which reduced the warehouse pick rate.
16. Employee costs are £0.2m lower than budget with a small number of vacancies and a number of staff being placed on furlough during the course of the year so that ESPO, like many trading organisations, could participate in the government's Coronavirus Job Retention Scheme.

ETL and Eduzone

17. ETL and Eduzone have together made a surplus of just under £50k. This is in line with budget and £97k better than last year. As with ESPO, trading was difficult as a result of Covid, but costs were tightly controlled with lower marketing spend. This was partly as a result marketing activity relating to My

School Fund which was moved into April 2021 with the third school lockdown finishing on 8th March and the new ESPO website going live at the start of April.

Forward look to 2021/22

18. The Budget for 2021/22 is a trading surplus of £5.1m (including Eduzone/ETL).
19. Trading during April and May 2021 has started well, continuing the positive momentum seen after schools reopened in March 2021.
20. At this early stage in the year our current expectation for the 21/22 Outturn remains the budget, i.e. a recovery year with a trading surplus of £5.1m.

ESPO Operational Progress

21. In April ESPO's distribution centre processed 95,000 order lines, valued at £2.550m and the transport fleet with couriers made 13,259 deliveries. Warehouse picking was performed at a rate of 31 lines per hour. Covid-19 related social distancing measures, reduced shift lengths have continued to impact on productivity throughout the period. The error rate detected by QA was 6% against the target of 3%. This has been addressed through a training plan in the goods-out section. The average order value for stock orders in April was £156.79 which is £55.20 lower than this time last year when there was fewer but larger orders being placed during the Covid crisis. Operational and IT costs YTD were £914k against a budget of £879k, which is £35k above budget. IT payroll costs and hardware purchases offset below-budget expenditure elsewhere. Stores margin was 31.2% which is in line with budget.
22. Activity levels across all customer channels increased significantly in April. The Customer Services team processed 18,355 customer orders, up 300% on April 2020. Online and electronic converted orders in April were at 52% of the total. Direct orders currently valued at £1.159m are being managed from suppliers to customers, a total of £252k are overdue and the late suppliers are being expedited by the customer services team. The team handled 7,052 telephone calls, with an average waiting time of 8 seconds against a target of 30 seconds.
23. We received 47 service ratings from customers on FEEFO, averaging 4.1/5 providing an 82% satisfaction rating. Most positive ratings relate to service and delivery. In conjunction with ESPO's IT team Customer Service are introducing 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. The solution provides improved resiliency for ESPO as well as improved management and performance information. The

use of call recording in the contact centre will enable service improvements through root cause analysis and staff training.

24. The stock optimisation team achieved product availability to 97.5% with 246 lines (£69k order value) out of 9,871 temporarily unavailable; stock value was £7.681m with a stock turn of 5.7. There have been a few issues with suppliers who rely on overseas sourcing and alternatives are being considered where appropriate. 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.
25. Facilities management in April was comprised of inspection of the warehouse fork lift trucks, installation of new strapping machines and new line marking in the service yard. Repairs were made to the air handling units, gas boilers, warehouse lighting and the powered conveyor equipment. The goods-out racking was life-expired and was replaced with new racking. Preparations are underway for adapting the Grove Park offices to reflect the needs of the organisation and staff to work flexibly. A paper setting this out is included elsewhere in the agenda.
26. Health and Safety recorded one minor injury in April when an agency worker sustained a cut hand. Full induction and shadowing had been completed outlining the risk of cuts and how to avoid. ESPO's annual health and safety action plan for 2021/22 was reviewed by the Leadership Team. This sets out the actions that are needed to ensure that ESPO remains compliant with the relevant regulations and covers areas such as manual handling, electrical safety transport operations and training.
27. ESPO's building remains Covid-19 secure and monthly Covid-19 self-assessments are returned to the 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 for any staff who need to visit the site for any reason. A joint consultative committee meeting was held with unions with no significant issues raised. A Covid-19 lessons learnt log was completed and shared with the Silver Business Continuity Team for future planning.
28. The IT helpdesk handled 494 enquiries and 60 satisfaction responses, monitored, through the new IT service management tool, showed 58 rated as 'good'. There were some connectivity issues associated with the Pulse VPN and these were managed by the team. The IT team supported a number of business projects associated with the new web-site; the uploading of new buying price and selling prices onto System 21 in preparation for the catalogue launch and the launch of the Oracle-Fusion HR portal.
29. Migration of the Microsoft Outlook email system from an on-premise to the cloud has begun with a large number of users now migrated to Exchange Online. This process will also provide a level of security against the Hafnium vulnerability. In this context all staff passwords on the network were changed in April.

30. A system refresh is being prepared on the Infor ERP system in 2021 to ensure that the operating system and middleware are on the latest version and fully supported. A project plan has been uploaded to ITSM and it is planned to deploy the system upgrade in October/November 2021.
31. In respect of the new warehouse development which is scheduled to be built at Leaders Farm in Lutterworth. This is currently at the pre-application planning stage. All plans and reports are prepared for submission once the pre-application process has been completed and we await the outcome.

Staffing

32. ESPO's People Strategy for 2021-24 is focused on clear deliverables for our staff, building on our strengths and underpinned by the drive to continuously improve. This strategy sets out the aims and objectives that we will achieve across ESPO, with objectives for our people being aligned with both our annual commercial plans and also our four year medium financial term strategy (MTFS).
33. This strategy is broken down into three distinct areas of work, the first being 'Leadership & Management' which includes objectives around the skill development of middle managers, aspiring managers and the provision of executive coaching. Office based managers will be required to use different skills to engage and support teams in their performance, and our staff need to have the necessary IT skills to improve their own digital capacity. It is therefore vital that we have strong leadership and a workforce who can adapt and be flexible to accommodate future changes that will need to be made to our service delivery models.
34. The second area of 'Workplace & Culture' covers objectives including recruitment and retention, equalities and staff wellbeing. The ESPO culture will be flexible and agile, supporting individuals to succeed. Our future recruitment methods will strongly promote the hybrid working model (where appropriate for the role) and our organisational values, and this will positively affect the range of applications that we receive.
35. Finally, 'Performance Management' will focus on Annual Performance Reviews, supervisions and attendance management. Managers will continue to manage staff by their work outcomes, rather than by their physical presence in the office. ESPO will also maintain our low sickness absence levels by continuing to provide support and reasonable adjustments for our staff.
36. Our adherence to the organisational values will be prevalent through this work, as they ensure our work is done with purpose. Our progress will be monitored and reviewed regularly through the ESPO Leadership Team with updates to the Trade Unions via the Joint Consultative Committee (JCC) and our staff via the Employee Engagement Group (EEG).

ESPO Risk and Governance Update**Health, Safety, Wellbeing and Facilities Management & Corporate Risk Register**

37. 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 B.

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 A: Balanced Scorecard
Appendix B: CRR extract