ESPO

ESPO MANAGEMENT COMMITTEE – 19 MARCH 2025

PROGRESS UPDATE

REPORT OF THE CHIEF OFFICER

Purpose of the Report

1. The purpose of this report is to inform Management Committee of the actions and progress made since the last update provided to Members in November 2024.

Financial Performance update (10 months to January 2025)

Summary

Year to January 2025 – Period 10					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	47.8	(2.3)	(4.5%)	(0.9)	(1.9%)
Direct Sales	15.4	(1.7)	(10.0%)	(0.9)	(5.8%)
Rebate income	11.3	(0.1)	(0.5%)	0.8	7.3%
Total Sales (Exc Gas)	**74.6**	**(4.0)**	(5.1%)	**(1.1)**	(1.5%)
Stores Margin %	30.1%	(1.0%)		(1.1%)	
Directs Margin %	18.4%	2.7%		2.8%	
Total Gross Margin	29.9	-1.0	(3.3%)	0.1	0.3%
Total Expenditure	22.8	1.3	6.0%	(1.3)	(5.2%)
Trading Surplus	**7.1**	**0.3**		**-1.2**	
Trading Surplus %	9.5%	0.8%		(1.4%)	

2. After 10 months, **a surplus of £7.1m has been made which is £0.3m better than budget**.

3. Rebate income from frameworks continues to perform well at +£0.8m ahead of last year benefiting from inflation, growth strategies and improvements in the customer experience journey.

4. In the Catalogue business the educational supplies market remains contracted with the latest BESA (British Educational Suppliers Association) data indicating a worsening of the market contraction across Quarter 3. There has been continued growth into development areas and increased volumes from the competitive price offering enabling ESPO to continue gaining market share in the contracting market. ESPO continues to offer good availability, competitive pricing, and exceptional levels of customer service. ESPOs price offer across the Top 500 products remains competitive and offers good value to customers.

5. Budgeted stores margin levels in Quarter 4 were set at a higher rate assuming last year's exercise book stocks were sold through earlier in the year which occurred, however, stores margin in January did not reach the budgeted levels anticipated. Although margin levels across the first ten months have been positive in the contracted market delivered by both volume growth and the mix of products sold, Total Gross Margin was £1.0m lower than budgeted levels. Margin levels are expected to improve over the remainder of Quarter 4.

6. Costs continue to be tightly controlled with expenditure of £22.8m, better than budget by £1.3m enabling the lower margin levels to be offset.

7. For the full year, the budget is a surplus of £7.2m, and as at January ESPO remains on track to achieve the full year budget target.

8. ESPO has now passed both peak trading periods and the second half of the year is quieter in demand. February and March are expected to be relatively quiet trading months and in March the catalogue printing and distribution costs are incurred offsetting the surplus delivered in the two periods. There remains significant caution about demand in Quarter 4 as continued feedback from schools and BESA indicate an ongoing, worsening market contraction and reduced spend on non-essentials will continue. Schools core annual purchases have been made earlier in the year and the overall number of schools in budgetary deficit continues to increase.

9. **Latest guidance for the full year is a trading surplus of £7.2m in line with budget.**

<u>Sales and Margin</u>

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	47.8		(2.3)	(4.5%)	(0.9)	(1.9%)
Direct Sales	15.4		(1.7)	(10.0%)	(0.9)	(5.8%)
Rebate income	11.3		(0.1)	(0.5%)	0.8	7.3%
Total Sales	**74.6**		**(4.0)**		**(1.1)**	
Stores Margin	14.4	30.1%	(1.2)	(1.0%)	(0.8)	(1.1%)
Directs Margin	2.8	18.4%	0.2	2.7%	0.3	2.8%
Rebate income	11.3		(0.1)	(0.5%)	0.8	7.3%
Gas Margin	0.4	2.3%	0.1	1.1%	0.1	1.2%
Catalogue Advertising	0.4		(0.1)		(0.2)	
Misc	0.5		0.1		(0.1)	
Total Gross Margin	**29.9**	**40.1%**	**(1.0)**	**0.8%**	**0.1**	**0.7%**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	17.8		(9.9)	(35.8%)	(8.4)	(32.0%)
Gas Margin	0.4	2.3%	0.1	1.1%	0.1	1.2%

10. Total sales to January 2025 were £74.6m and are £4.0m lower than budget and £1.1m lower than last year. Framework rebate income continues to perform well at £0.8m ahead of last year and timeliness of billing activity continues to improve in this area.

11. **Stores sales were £47.8m and £2.3m behind budget**. Member spend and Established customer spend continue to be significantly down against budget represented by the market contraction and pressure on local council and schools funding. The contraction in the market reflects the ongoing funding pressures within schools from inflation, pay, and energy. ESPO has partly offset this contraction through targeted sales growth campaigns into development areas and additional volumes sold through the competitive pricing offer with Development area sales up against budget. Trading activity continues to be fiercely competitive, but customers are making good use of ESPO's loyalty-based promotions to secure the best value for money. As expected, Quarter 4 will be tough trading conditions with school budgets now largely spent.

12. **Gross profit margin % for Stores at 30.1% is 1.0% below budget**. There has been minimal price rises from suppliers this year and this stability has helped ESPO retain its competitive pricing strategy through the year without the need to change pricing during the year. The margin % in the period April-October suffered due to clearing of higher priced exercise book stocks purchased in the prior year (this was allowed for in the budget). Last year margin was strong, linked to in-year cost price deflation from suppliers, which hasn't occurred this year. Budgeted stores margin levels in Quarter 4 were set at a higher rate assuming last year's exercise book stocks were sold through earlier in the year which occurred, however stores margin in January did not reach the budgeted levels anticipated due to an unfavourable product mix of sales.

13. **Directs sales were £15.4m and are £1.7m lower than budget.** Price inflation applied on 1 April was 15%, and the budget assumed similar volumes to 2023/24 levels. Further funding pressures on school budgets in 2024/25 has led to schools reducing their demand on larger non-essential purchases, such as classroom furniture and equipment replacement, which can be deferred. Suppliers looked to make deliveries in December before the Christmas break, but outlook now remains weak for Quarter 4.

14. **Gross profit margin % for Directs at 18.4% is +2.7% ahead of budget**. This is largely due to the mix of products sold and some in-year supplier cost price reductions. The improved margin level on directs has helped offset the lower sales volumes on directs products.

15. **Rebate income of £11.3m is £0.8m ahead of last year and** in line with budget. It continues to perform well, benefitting from inflation and with a good pipeline in place of contracts secured for the future. ESPO has managed to secure some of the Defra funding via councils under the Waste and Resources Action Programme which should enable further framework growth in future years and there is further opportunity in this area. The Strategic HR services framework has been affected by government pressures on back office spend (2-5% targeted reductions) and similarly the Consulting framework has been affected by pressure on Central Government customers to move to the CCS framework. Focus remains within the Framework team on ensuring billing activity is timely and accurate.

16. Other income is in line with budget overall.

17. **Overall gross profit margin at £29.9m is £1.0m lower than budget** from lower stock sales and a lower stock margin %. This has been mainly due to the overall contraction of the educational supplies market across 24/25 and it's worsening during Quarter 3.

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	13.0	1.9	(0.8)
Agency/Contract	2.0	(0.9)	(0.2)
Total	**15.0**	**1.0**	**(1.0)**
Overhead Expenses			
Transport	2.7	0.0	(0.1)
Warehouse	0.7	0.1	(0.0)
Procurement	0.2	0.2	(0.1)
Sales & Marketing	0.6	0.0	0.1
Finance	1.7	0.0	0.0
IT	1.2	(0.0)	(0.1)
Directorate	0.7	(0.0)	(0.1)
Total	**7.8**	**0.3**	**(0.3)**
Total Expenditure	**22.8**	**1.3**	**(1.3)**
As % of Total Sales Excluding Gas	**30.6%**	**0.1%**	**(2.1%)**

18. **Total expenditure of £22.8m is £1.3m better than budget** showing good levels of cost control across the business. This mainly relates to vacancies across procurement and finance, operational efficiencies, differing phasing of Procurement training and legal costs, and application of the confirmed pay award. A continued focus is retained on strong cost control across all areas.

19. Expenditure will increase next year due to an escalating cost base as employers National Insurance (NI), National Living Wage cost increases occur from 01 April 2025. This is allowed for in the 25/26 budget and product pricing but presents a volume risk as school funding remains constrained.

20. **Expenditure as a % of sales** is one KPI (key performance indicator) which allows ESPO to measure cost control in relation to sales. This KPI was 30.6% and is 0.1% better than budget and shows costs are being controlled in relation to sales activity and inflationary growth.

ESPO Trading Limited (ETL)/Eduzone

21. ETL and Eduzone are ESPO's limited companies which service the private sector.

ETL and Eduzone - Year to January 2025			
£k	**Actual**	**B/(w) than Budget**	**B/(w) than LY**
Eduzone Sales	480	(27)	(28)
ETL Sales	1,053	387	498
Total Sales	1,534	360	471
Eduzone Gross Margin	168	(10)	(24)
Eduzone Gross Margin %	35.0%	(0.1%)	(2.8%)
ETL Gross Margin	263	71	84
ETL Gross Margin %	25.0%	(3.8%)	(7.3%)
Total Gross Margin	431	61	60
Eduzone Expenditure	(216)	(11)	(28)
ETL Expenditure	(119)	2	(10)
Total Expenditure	(335)	(9)	(37)
Trading Surplus	96	52	22
Trading Surplus %	6.2%	2.5%	(0.6%)

22. Total sales of £1,534k are £360k ahead of budget.

23. ETL, serving international and private sector customers, has started strongly with sales ahead of budget and some earlier ordering ahead of the peak summer international period. ETL has benefitted from growth strategies, developing relationships with international distributors in the international market, and increased recognition of the ESPO brand overseas.

24. Eduzone, ESPO's business focusing on early years in the UK, is behind budget, and last year reflecting its exposure to severe financial pressures on nurseries in the early years sector. Employers NI and the National Living Wage increases from 01 April are expected to have a further significant impact on this sector in 25/26 with potential further closures of independent nurseries impacting Eduzone income.

25. ETL and Eduzone catalogue sales enable ESPO to serve customers that it might otherwise have to turn away, whilst also making a positive contribution towards central costs.

26. Margin and expenditure is largely in line with budget and costs are being controlled.

27. Overall, a £96k surplus has been generated, £52k ahead of budget and £22k better than last year.

<u>Full Year Expectation</u>

28. For the full year, the budget is a surplus of £7.2m. There are several risks and opportunities that could impact ESPO across the second half of the year:

    i) ESPO's price offering remains strongly competitive and regular benchmarking shows ESPO is well positioned to attract additional volumes across the remainder of the year.

    ii) Recent BESA and school feedback indicates significant budgetary pressures on schools and weaker demand is expected across the remainder of the year. An element of market contraction risk is expected in Quarter 4.

iii) Catalogue margins have largely been in line with budget up to December due to additional volumes, target margin setting and beneficial product mix. This trend is expected to deteriorate across the final quarter with the worsening contraction of the market. The final quarter of the year should see improved margins as last year's exercise book stocks have fully sold through but will depend on sales / product mix.

iv) Directs sales are likely to remain behind budget for the rest of the year as schools continue to focus on essentials and defer spending on furniture items although this may be offset by higher margin levels if product sales mix remains favourable.

v) Competition remains fierce in the Educational Supplies market. Major global competitors with UK national distribution networks have continued their investment in the educational supplies market through integrations with School MIS providers and are actively working to provide free business accounts to schools. They are actively targeting the Education sector with education webstores, online catalogues and offering a next day delivery service as standard.

vi) Rebate income has progressed well YTD, however central government policy on back-office budget reductions and consulting is impacting central government customer spend on HR & Consulting frameworks.

ESPO P&L – January 2025

	Year to Date @ Jan 25					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	47,823		50,083	(4.5%)	48,760	(1.9%)
Direct	15,412		17,125	(10.0%)	16,354	(5.8%)
Rebate Income	11,340		11,393	(0.5%)	10,572	7.3%
Total Sales (Excluding other income)	**74,575**		**78,601**		**75,686**	
Cost of Sales						
Stores	33,445		34,517		33,574	
Direct	12,570		14,436		13,797	
Total Cost of Sales	**46,014**		**48,953**		**47,370**	
Margin						
Stores	14,378	30.1%	15,566	31.1%	15,186	31.1%
Direct	2,842	18.4%	2,690	15.7%	2,557	15.6%
Rebate Income	11,340		11,393		10,572	
Gas	416	2.3%	354	1.3%	300	1.1%
Catalogue Advertising	416		540		606	
Other Income	503		375		596	
Total Margin	**29,895**	40.1%	**30,917**	39.3%	**29,818**	39.4%
Warehouse and Transport						
Employee Costs						
Staff	5,410		6,764		5,148	
Agency/Contract	1,863		1,018		1,652	
Total	**7,273**		**7,783**		**6,800**	
Overhead Expenses						
Transport	2,739		2,763		2,680	
Warehouse	725		832		721	
Total Warehouse and Transport	**10,737**	22.5%	**11,378**	22.7%	**10,201**	20.9%
Head Office						
Employee Costs						
Staff	7,602		8,134		7,085	
Agency/Contract	107		23		123	
Total	**7,709**		**8,157**		**7,209**	
Overhead Expenses						
Procurement	214		406		163	
Sales & Marketing	578		626		652	
Finance	1,658		1,688		1,660	
IT	1,188		1,160		1,051	
Directorate	702		656		599	
Total	**4,339**		**4,535**		**4,125**	
Total Head Office	**12,048**		**12,692**		**11,334**	
Total Expenditure	**22,785**	**30.6%**	**24,070**	**30.6%**	**21,534**	**28.5%**
Trading Surplus	**7,110**	**9.5%**	**6,847**	**8.7%**	**8,283**	**10.9%**

ETL Combined P&L – January 2025

ETL & Eduzone Results	Jan-25 YTD					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Sales	1,533.5		1,173.5		1,062.9	
Total Sales	**1,533.5**		**1,173.5**		**1,062.9**	
Cost of Sales						
Cost of Sales	1,102.8		804.0		692.1	
Total Cost of Sales	**1,102.8**		**804.0**		**692.1**	
Margin						
Margin	430.7		369.5		370.8	
Total Margin	**430.7**	28.1%	**369.5**	31.5%	**370.8**	34.9%
Expenditure						
Employee Costs & Agency	134.3		134.3		125.1	
Commission	0.0		0.0		0.0	
Carrier	98.9		86.4		77.9	
Marketing Expenses	48.5		51.3		48.3	
Catalogue Print & Distribution	22.5		18.6		21.4	
Consultancy	1.9		1.9		1.9	
Support / Legal Prof	1.6		0.0		0.0	
Accountancy	(0.1)		2.0		0.4	
Insurance	18.1		18.5		18.9	
Audit	0.0		0.0		0.0	
Office Machine Maint / Software	2.1		2.6		3.8	
Merchant Services	7.0		2.2		3.8	
Depreciation	0.0		0.0		0.0	
Other Expenses	0.4		8.1		(3.8)	
Total Expenditure	**335.1**	**21.9%**	**325.8**	**27.8%**	**297.7**	**28.0%**
Trading Surplus /(Deficit)	**95.6**	**6.2%**	**43.7**	**3.7%**	**73.1**	**6.9%**

Operational Progress

29. In January, ESPO's distribution centre picked and despatched 133,655 order lines, valued at £4.224m and the transport fleet with couriers made 13,935 deliveries. Warehouse picking was performed at a rate of 33 lines per hour against a target of 32. The error rate detected by quality assurance (QA) was 3% against the target of 3%. The average order value for stock orders in January was £228.09 compared to the budget of £228.03. Operational and Information Technology costs year to January 2025 were £12.450m against a budget of £13.077m. Stock availability averaged 99.1% in January; the stock value was £10.620m with a stock turn of 5.99. The team has introduced an on-line portal for processing customer returns which has improved processing time and enhanced visibility across the business. A meeting was held with trade unions through the Joint Consultative Committee.

30. The Customer Services Team handled 3,849 calls across the three customer service channels. Average wait times across all teams was 18 seconds with 97% of all calls answered. The team processed 29,360 customer orders valued at £4.474m. Online and electronic converted orders were at 90.7% of the total orders processed. Direct orders currently valued at £0.899m are being managed from suppliers to customers. Late suppliers are being expedited by the Customer Services Team and customers are kept informed of the estimated delivery date. 9,182 responses to email enquiries were recorded using the e-ticketing system. ESPO received 31 service ratings from FEEFO and its customer rating was 98%. ESPO was delighted to be awarded Gold Status and an Exceptional Service Award from FEEFO for its performance in 2024. A further video has been introduced onto the ESPO web site to assist customers who use the SIMS on-line ordering portal, as part of the customer self-help programme.

31. Facilities Management (FM) in January ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. Pedestrian warning lights have been installed in the warehouse extension to alert mechanical handling operatives of the presence of pedestrians in the vicinity. A policy on electric vehicle charging was agreed by the Leadership Team. The canteen facilities have been upgraded with enhancements to the seating areas and vending facilities. The on-site recycling resources have been upgraded to further facilitate recycling and waste separation.

32. There was one reported injury to a warehouse operative who sustained a cut to the upper arm on a metal transit cage. Additional safety alerts were issued to all operatives. Following GMB feedback modifications were made to the delivery vehicles' audible warning alarm system, whereby it is deactivated between 11:30pm and 7:00am. The system also deactivates if a vehicle is driven over 20mph. A fire risk assessment was conducted by Chubb and an action plan is being worked through. A series of random drugs and alcohol tests were conducted on 18 December. All donors returned negative/zero results for alcohol with one non-negative result for cannabis by an agency warehouse worker who had already been released. The agency provider was requested not to re-assign this person to ESPO. Portable Appliance Testing (P.A.T) was conducted on all

electrical items in the warehouse (622 items) with two issues being expedited. ESPO's carbon reduction plan has been made available on the ESPO web site.

33. The Information Technology (IT) helpdesk handled 757 enquiries with a 100% satisfaction rating from internal customers. ESPO continues to enhance the ESPO intranet site using Sharepoint which will create a more dynamic, interactive digital workspace for staff. The Information Technology Decision Group (ITDG) agreed a number of updated standard IT policies. A migration and implementation plan for the Software as a Service (SaaS) to an external hosting agent was prepared and successfully delivered in February. Work continues on the introduction of using PowerBi technology to improve the quality of ESPO's management information system.

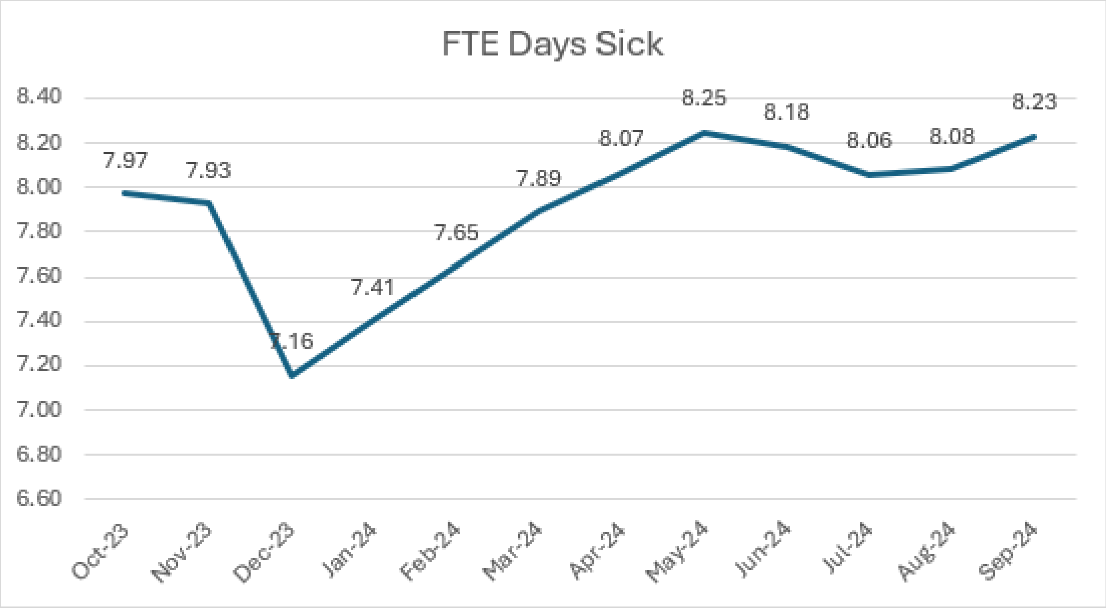
Staffing

34. The three primary causes of sickness absence during Quarter 2 of 2024/25 were:

Quarter 2 (Jul -Sep 2024)		
	FTE Days Lost	Percentage
Other Musculo-Skeletal Problems	254.42	39.87%
Back and Neck Problems	83.03	13.01%
Cough, Cold & Flu	63.51	9.95%

35. The top three health reasons have remained the same as Quarter 1. However Musculoskeletal has increased by 16% during Quarter 2 whilst back and neck problems has only increased by 0.6%. Stress/depression, mental health has actually decreased since Quarter 1 by over 2%. The cases are not work related and are all being managed with the support of Human Resources (HR).

36. Overall sickness absence did start to decline in Quarter 1. However, September saw a rise in absence, with a 100% increase in the number of days attributed to Other musculo-skeletal problems. This increase can be seen in the graph below:



37. An Essential Development Programme for managers and aspiring managers is to be launched over the coming months, including targeted supervision/first line manager training and completion of mandatory training in relation to Human Resources policies and procedures.

38. Flu vaccinations have been undertaken on site, with 11% of the workforce taking advantage of this. Health MOTs were offered to the entire workforce in November and December. All sessions were fully booked, including a dedicated session for the night workers, resulting in 27% of the workforce participating.

Resources Implications

39. There are no resources implications arising from the recommendations within this report.

Recommendation

40. It is recommended that the Management Committee note the update provided on the actions and progress made since the last update provided to Members in November 2024.

Equality and Human Rights Implications

41. There are no equality and human rights implications arising from the recommendations within this report.

Background Papers

42. None.

Appendices

Appendix A – Balanced scorecard
Appendix B – Risk Review Extract

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