ESPO MANAGEMENT COMMITTEE – 26 NOVEMBER 2025

PROGRESS UPDATE

REPORT OF THE CHIEF OFFICER

Purpose of the Report

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

Financial Performance update

Summary

Year to September 2025 – Period 6								
£m	**Actual**	**B/(w) than Forecast**		**B/(w) than Budget**		**B/(w) than LY**		
Stores Sales	35.3	(1.3)	(3.5%)	(2.5)	(6.6%)	(0.1)	(0.4%)	
Direct Sales	9.9			(0.2)	(2.2%)	(0.3)	(2.9%)	
Rebate income	7.0			(0.0)	(0.0%)	0.2	2.8%	
Total Sales (Exc Gas)	**52.3**	**(0.2)**	(0.4%)	**(2.7)**	(4.9%)	**(0.3)**	(0.5%)	
Stores Margin %	32.9%	(0.4%)		0.4%		4.1%		
Directs Margin %	17.6%	0.5%		0.5%		(1.7%)		
Total Gross Margin	21.3	-0.5		-0.6	(2.6%)	1.4	7.1%	
Total Expenditure	14.5	1.1		1.1	8.2%	(0.3)	(1.9%)	
Trading Surplus	**6.8**	**0.6**		**0.5**		**1.1**		
Trading Surplus %	13.1%	1.5%		1.6%		2.2%		

2. **After 6 months, a surplus of £6.8m has been made which is £0.5m better than budget and £1.1m better than last year.**

3. Rebate income from frameworks continues to perform well benefitting from organic growth and inflation. Rebate income is now in line with budgeted levels following an improvement in billing activity during September. A further £0.1m unbilled deferred income exists that is unrecognised in September.

4. In the Catalogue business the educational supplies market has contracted further in the Autumn period and the market remains fiercely competitive. Competitors are discounting heavily in the autumn back to school period to attract sales volumes but ESPOs price offer across the Top 500 products is well placed and continues to offer good value to customers. Back-to-school sales have been low compared to previous years but this appears to be driven by constrained school budgets rather than sales losses to competitors.

5. The contraction of the educational supplies market continues with ongoing pressures on school finances, BESA, the British Educational Suppliers

Association, have indicated a 3% educational supplies market contraction from January 2025 to September 2025. At the end of September ESPO's sales volumes are down 3% versus last year in line with the overall market movement. Margin in the first half of the year has been positive, delivered by improvements in ESPO's margin management and price setting activities. There has been growth into competitor areas and increased volumes from the competitive price offering enabling ESPO to continue gaining market share. ESPO continues to offer high availability, competitive pricing, and exceptional levels of customer service.

6. Costs continue to be tightly controlled with expenditure of £14.5m better than budget by £1.1m. Savings have been driven by operational staffing efficiencies, procurement and finance vacancies, and reduction in variable overhead costs through cost control. In addition, the confirmed pay award is slightly lower than the budget assumption and provides a £60k budget saving across the year.

7. For the full year, the budget is a surplus of £7.3m, and as of September ESPO is well positioned, ahead of the YTD budget to achieve the full year budget target. ESPO has now passed the pre-school holiday peak trading period, the second half of the year is quieter – December is a particularly quiet month due to holidays. Demand in the second half of the year is expected to be low as feedback from schools and BESA indicate an ongoing market contraction and reduced spend on non-essentials will likely continue.

8. **Latest guidance for the full year is a trading surplus of £7.5m-£7.7m, up to £0.4m better than budget.**

Sales and Margin

Sales and Margin								
£m	**Actual**		**B/(w) than Forecast**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	35.3		(1.3)	(3.5%)	(2.5)	(6.6%)	(0.1)	(0.4%)
Direct Sales	9.9				(0.2)	(2.2%)	(0.3)	(2.9%)
Rebate income	7.0				(0.0)	(0.0%)	0.2	2.8%
Total Sales	**52.3**				**(2.7)**		**(0.3)**	
Stores Margin	11.6	32.9%	(0.6)	(0.4%)	(0.7)	0.4%	1.4	4.1%
Directs Margin	1.7	17.6%			0.0	0.5%	(0.2)	(1.7%)
Rebate income	7.0				(0.0)	(0.0%)	0.2	2.8%
Gas Margin	0.2	4.0%			(0.0)	2.7%	(0.1)	2.0%
Catalogue Advertising	0.6				0.1		0.2	
Misc	0.2				(0.0)		(0.1)	
Total Gross Margin	**21.3**	**40.8%**			**(0.6)**	**1.0%**	**1.4**	**2.9%**

Gas							
£m	**Actual**			**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	4.6			(9.8)	(68.1%)	(7.5)	(62.0%)
Gas Margin	0.2	4.0%		(0.0)	2.7%	(0.1)	2.0%

9. Total sales to September 2025 were £52.3m, £2.7m lower than budget and £0.3m below last year. Rebate income is performing well and remains close to budget.

10. **Stores sales were £35.3m and £1.3m behind reforecast, £2.5m behind budget**. The significant contraction in the educational supplies market affecting sales continues to worsen in 2025. The contraction in the market reflects the ongoing funding pressures within schools along with school cost pressures including inflation, pay, and energy.

11. ESPO has managed to offset a significant element of this contraction through targeted sales growth campaigns into development area; however, Member area school stores catalogue spend is down 8% year to date against last year offset by growth in sales across development areas.

12. Trading conditions remains highly competitive and ESPO customers continue to utilise the loyalty-based promotions to secure the best value for money.

13. **Gross profit margin percentage for Stores at 32.9% is largely in line with budget and reforecast levels**. Last year margin was affected by a carry forward of higher priced exercise book stocks purchased in 2023/24. Margin is expected to continue at these positive levels through the remainder of the year. During the autumn mini peak trading period ESPO will take the opportunity to review pricing to manage volume and margin.

14. **Directs sales were £9.9m and are £0.2m lower than budget.** The budget assumed a similar volume to last year. The contraction in the market, mainly affecting non-essential purchases, has particularly affected school purchases of directs products such as classroom furniture and equipment replacement, which can be deferred by schools. A good level of furniture and equipment installations occurred during the school holiday period.

15. **Gross profit margin percentage for Directs at 17.6% is +0.5% ahead of budget.** This is partly due to the mix of product sold but also due to improved margin pricing and margin management activities.

16. **Rebate income of £7.0m is £0.2m better than last year and** down £0.2m 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. YTD income improved in September as billing activity increased.

17. Other income is in line with budget, benefitting from higher than budgeted interest rates on ESPOs cash deposits.

18. **Overall gross profit margin at £21.3m is 0.6m behind budget, and £1.4m ahead of last year.**

Expenditure

19.

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	8.5	1.0	(0.7)
Agency/Contract	1.5	(0.5)	0.0
Total	**10.0**	**0.6**	**(0.7)**
Overhead Expenses			
Transport	1.7	0.2	0.1
Warehouse	0.3	0.1	0.2
Procurement	0.1	0.1	0.0
Sales & Marketing	0.3	0.1	0.0
Finance	1.0	0.0	0.1
IT	0.8	(0.0)	(0.1)
Directorate	0.3	0.1	0.1
Total	**4.5**	**0.5**	**0.4**
Total Expenditure	**14.5**	**1.1**	**(0.3)**
As % of Total Sales Excluding Gas	27.8%	0.0%	(0.7%)

20. **Total expenditure of £14.5m is £1.1m better than budget.** This relates to operational staffing efficiencies, vacancies across procurement and finance and a reduction in variable overhead costs as ESPO applies strong cost controls across all areas.

21. **Expenditure as a percentage of sales** is a KPI which allows us to measure cost control in relation to sales. This key performance indicator (KPI) was 27.8% and is in line with budget demonstrating costs are being controlled in relation to sales activity and inflationary growth.

ETL/Eduzone

22. ETL and Eduzone are ESPOs limited companies which service the private sector.

ETL and Eduzone - Year to September 2025			
£k	Actual	B/(w) than Budget	B/(w) than LY
Eduzone Sales	345	50	76
ETL Sales	618	(100)	(153)
Total Sales	962	(50)	(77)
Eduzone Gross Margin	119	16	24
Eduzone Gross Margin %	34.5%	(0.6%)	(0.7%)
ETL Gross Margin	188	4	(12)
ETL Gross Margin %	30.4%	4.8%	4.5%
Total Gross Margin	307	20	12
Eduzone Expenditure	(124)	12	4
ETL Expenditure	(86)	(1)	(19)
Total Expenditure	(211)	11	(14)
Trading Surplus	96	31	(2)
Trading Surplus %	10.0%	3.5%	0.6%

23. Total sales of £962k are £50k behind budget.

24. ETL, serving international and private sector customers, has started reasonably well in the international sales period, however suppliers have indicated the pattern of purchases has changed this year and some schools are buying directly from suppliers. ETL has benefitted from growth strategies, developing relationships with international distributors in the international market, and increased recognition of the ESPO brand overseas.

25. Eduzone sales, focusing on early years in the UK, is £50k better than budget, and £76k better than last year. Eduzone is performing well in 2025/26 due to onboarding additional nursery groups and improvements in sales with existing nursery group customers. The nursery market faces similar financial pressures to schools but lacks some of the additional funding that was announced for schools in Autumn 2022. Independent nurseries are particularly struggling with minimum wage and employers National Insurance increases, staff leaving the sector and high energy costs.

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

27. Overall, a combined £96k surplus has been generated, this is £31k ahead of budget.

Full Year Expectation

28. For the full year, the budget is a surplus of £7.3m. Looking ahead there are several risks and opportunities:

    a. Rebate income is performing well, however ESPO is aware of the impact central Government policy is having on funding of ESPO's customers and constrained council budgets.

    b. British Educational Suppliers Association (BESA) and school feedback indicates a further contraction of the market (c.3% in 2025) and continued low confidence, poor consumer demand being expected across the rest of the year.

c. ESPO's competitive price offering remains strong and regular benchmarking shows ESPO is well positioned to attract volumes across the remainder of the year.

d. Catalogue margin percentages have been strong across the first half of the year. Product mix and cost price increases may affect the second half of the year.

e. Directs sales are expected to remain behind budget for the rest of the year as schools continue to focus on essentials and defer spending on furniture items.

f. The December and March periods usually generate a loss given in December there is the Christmas closure (for ESPO and schools) and in March ESPO incurs its catalogue printing and distribution costs. Both months are usually also slow months for rebate collection. This is budgeted for and included within the forecast outturn.

g. VAT is now also being charged on Private school fees along with the removal of relief on private school business rates, so far since the introduction of the changes over 50 private schools have closed.

29. Considering all of this, **the latest guidance for the full year is a trading surplus of £7.5m-£7.7m, up to £0.4m better than budget.** As the autumn 'back to school' period is concluded the forecast will be updated as more confidence is gained over customer demand, providing no material risks emerge.

Operational Progress

30. In September, ESPO's distribution centre picked and despatched 172,222 order lines valued at £5.671m, and the transport fleet with couriers made 25,133 deliveries with a combined weight of 0.946m kilograms/ 946T. Warehouse picking was performed at a rate of 33 lines per hour against our target of 32. The average order value for stock orders in September was £284.97 compared to £269.84 from September 2024, confirming larger order sizes. Operational and Information Technology costs year to September 2025 were £8.136m against a budget of £8.633m. Stock availability averaged 98.8% in September; the stock value was £11.559m with a stock turn of 4.89.

31. The warehouse extension is being utilised for bulk storage previously held externally and provides much needed storage capacity. A 'slotting' project is underway in the warehouse to locate faster moving products closer to the packing and assembly hall. This will reduce walk times and enhance forklift truck replenishments. Approval was given to purchasing four new 3.5T vans which includes two Electric Renault Master vans & two diesel Renault Master vans. The transport team had first been trialling the Renault electric vehicle to evaluate its range and load capacity for suitability for local deliveries. Annual driver CPC training has now finished all drivers in both Leicester and Wales receiving their training.

32. The Customer Services Team handled 5,605 calls across the three customer service channels in the busy back-to-school period. Average wait times across all teams was 34 seconds with 94% of all calls answered. The team processed 30,528 customer orders valued at £4.937m. Online and electronic converted orders were at 90% of the total orders processed. Direct orders currently valued at £1.218m 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. 6,648 responses to email enquiries were recorded using the e-ticketing system. ESPO received five service ratings from FEEFO and our customer rating was 96%. Customers are now able to provide product reviews via the FEEFO app and this is gaining good traction from customers with 66 product reviews received in August and September. The annual Institute of Customer Service benchmarking survey is due to be launched in November which invites customer to score ESPO across a range of performance standards. The results are then compared to other participant companies to provide a benchmark of performance.

33. Facilities Management in September ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. As part of ESPO's environmental controls the delivery yard channel drain was cleaned with further exploration into current oil interceptor pits planned. A series of videos featuring ESPO's sustainability programme have been uploaded to the ESPO web site. Work on refurbishing the on-site heating and ventilation system is planned for October and November.

34. In terms of health and safety there were two incidents. A night shift housekeeper sustained a cut to the forearm whilst using a box cutting knife. A safety alert was issued reminding staff of the safe system of work with respect to the use of knives in the warehouse. A member of the Office staff tripped whilst descending the office stairs which resulted in a broken ankle. The contributory factor appeared to be becoming distracted whilst carrying a lap-top. A message was placed on the weekly communications bulletin reminding staff of the need to be careful carrying items. A fire evacuation drill was completed on 16th September. The total time to evacuate was 3 minutes 20 seconds with no reportable issues identified.

35. The Information Technology (IT) helpdesk handled 816 ticket enquiries with a 100% satisfaction rating from internal customers. An accessibility issue for on-site users was encountered on 29 September, which was traced to a cloud-based firewall server. The provider switched to another server to resolve the problem. In terms of cyber security ESPO's Microsoft overall risk improved to 85% and completion rates for the USecure staff cyber training module improved to 96.9%. The project to replace Windows 10 with Windows 11 devices is expected to be completed by 14 October. The annual 'penetration testing' on ESPO's system will be carried out week commencing 3 November.

Staffing

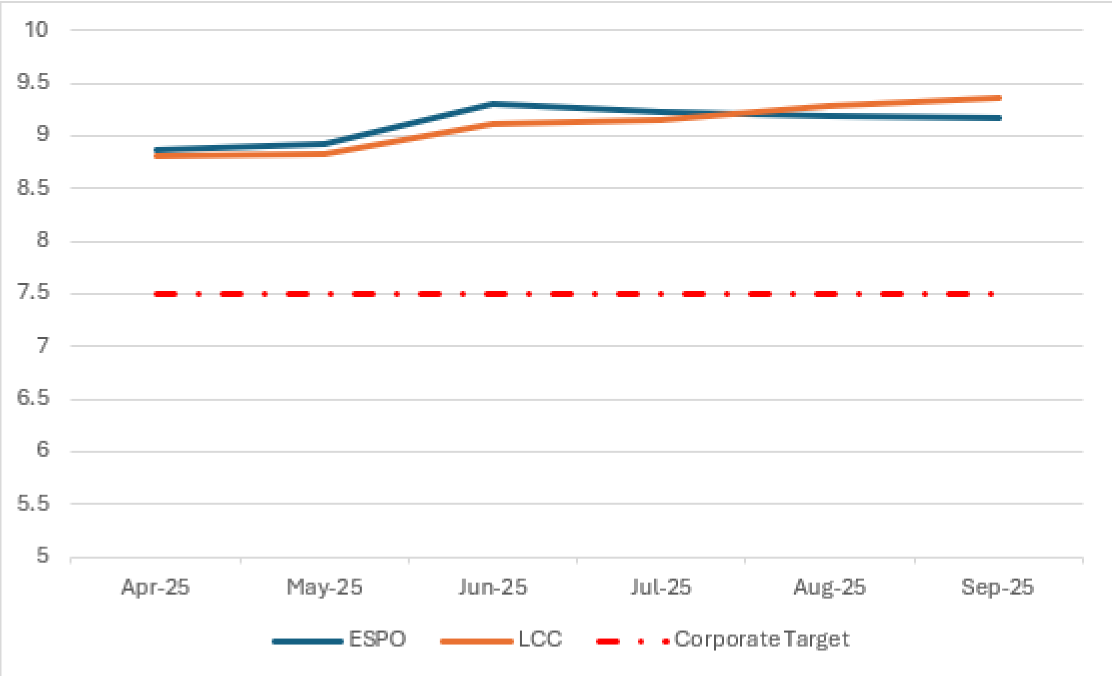
36. The three primary causes of sickness absence during Q2 of 2025/26 were:

Stress, Mental Health & Depression - 29.94%
Other Musculo-Skeletal Problems- 15.02%
Cancer- All Forms- 10.47%

37. The second quarter of the year has seen a change in the top three health reasons. Cancer has entered the top three for the first time. This related to four employees.

38. Q2 has seen a general decline in the number of absences relating to Other Musculoskeletal, Back and Neck problems and seasonal, namely cough, cold and flu. July did see a peak of absences relating to Stress, Mental Health and Depression but this started to decline throughout the quarter.

39. Leicestershire County Council has a challenging target of 7.5 days sickness per FTE. Whilst ESPO is a predominantly manual/front line in terms of the workforce, and have seen a steady rise in absences, they have seen a visible reduction in the average FTE absence lower than that of LCC.



40. The Wellbeing Programme in 2024/25 saw 39% of the workforce undertaking Health MOTs and 11% taking advantage of onsite Flu vaccinations. This programme is being repeated in 2025/26 and so far 15% of the total workforce have taken advantage of onsite Flu vaccinations and 14.3% so far are booked for a Health MOT in Q3.

41. There has been the development of a mandatory learning and development programme for all employees and people managers. The first pilot for Leadership and Management Programme specifically designed for ESPO managers concludes in October with feedback being extremely positive and another cohort being planned for the new calendar year.

Resources Implications

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

Recommendation

It is recommended that the Management Committee note the update provided on the actions and progress made since the last update provided.

Equality and Human Rights Implications

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

Background Papers

None.

Appendices

Appendix A – Balanced scorecard
Appendix B – Risk Review Extract

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