

ESPO MANAGEMENT COMMITTEE – 25 MARCH 2026

PROGRESS UPDATE

REPORT OF THE MANAGING DIRECTOR

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.

Financial Performance update

Summary

Year to January 2026 – Period 10						
£m	Actual	B/(w) than Forecast		B/(w) than Budget		B/(w) than LY
Stores Sales	47.1	(2.7)	(5.4%)	(4.1)	(8.0%)	(0.7) (1.5%)
Direct Sales	14.9	(0.7)		(0.7)	(4.4%)	(0.5) (3.4%)
Rebate income	11.7	(0.1)		(0.1)	(1.1%)	0.4 3.2%
Total Sales (Exc Gas)	73.7	(3.5)	(4.5%)	(4.9)	(6.2%)	(0.9) (1.2%)
Stores Margin %	33.3%	(0.0%)		0.8%		3.2%
Directs Margin %	18.0%	0.9%		0.9%		(0.4%)
Total Gross Margin	31.3	-0.9		-1.0	(3.0%)	1.5 4.9%
Total Expenditure	23.7	1.7		1.7	7.6%	(0.9) (3.6%)
Trading Surplus	7.7	0.8		0.7		0.6
Trading Surplus %	10.4%	1.5%		1.6%		0.9%

2. After 10 months, **a surplus of £7.7m has been made which is £0.8m better than budget** and £0.7m better than last year.
3. Rebate income from frameworks continues to perform well at +£0.4m ahead of last year benefiting from inflation, growth strategies and improvements in the customer experience journey. Pressure on public body funding, particularly back office spend in central government departments has impacted spend on frameworks but is largely offset by framework growth elsewhere.
4. The educational supplies market remains contracted. 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. There has been continued growth into development areas 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.

5. BESA, the British Educational Suppliers Association, published their annual overview of the educational supplies market which indicated a 3.2% educational supplies market contraction from January 2025 to December 2025.
6. Margin levels across the first 10 months has been positive in the contracted market delivered by margin management improvements, target margin setting, and the mix of products sold. Although Total Gross Margin was £1.0m lower than budgeted levels, driven by lower volumes the stores margin level at 33.3% was 0.8% better than budget and Directs margin was 0.9% better than budget. Margin levels are expected to continue to improve over the remainder of Q4 helping offset the impact of lower volumes.
7. Costs continue to be tightly controlled with expenditure of £23.7m, better than budget by £1.7m enabling the volume driven lower gross margin to be offset. The focus on reducing variable costs in light of the reduced stores volumes has helped offset the lower margin position. 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.
8. For the full year, the budget is a surplus of £7.3m, and as of January ESPO remains on track to surpass the full year budget target.
9. ESPO has now passed both peak trading periods and the second half of the year is quieter in demand. March is expected to be a relatively quiet trading month and also 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 Q4 as continued feedback from schools and BESA indicate that 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.
10. The war in the Middle East has various impacts upon ESPO and may directly impact ESPO Trading Limited's (ETL) International Sales across 2026/27. ESPO is already considering mitigations including early ordering where needed, enhanced stock management, to ensure good availability and optimising deliveries but also predicting any issues in sourcing products and speaking with suppliers to mitigate any sourcing risks.
11. **Latest guidance for the full year is an improved trading surplus of £7.8m-£8.0m, £0.5m-£0.7m 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	47.1		(2.7)	(5.4%)	(4.1)	(8.0%)	(0.7)	(1.5%)
Direct Sales	14.9		(0.7)		(0.7)	(4.4%)	(0.5)	(3.4%)
Rebate income	11.7		(0.1)		(0.1)	(1.1%)	0.4	3.2%
Total Sales	73.7		(3.5)		(4.9)		(0.9)	
Stores Margin	15.7	33.3%	(0.0)	(2.5%)	(0.9)	0.8%	1.3	3.2%
Directs Margin	2.7	18.0%			0.0	0.9%	(0.2)	(0.4%)
Rebate income	11.7				(0.1)	(1.1%)	0.4	3.2%
Gas Margin	0.3	2.1%			(0.0)	1.2%	(0.1)	(0.3%)
Catalogue Advertising	0.6				0.1		0.2	
Misc	0.4				(0.0)		(0.1)	
Total Gross Margin	31.3	42.5%	(1.0)		(1.0)	1.4%	1.5	2.4%

Gas								
£m	Actual				B/(w) than Budget		B/(w) than LY	
Gas Sales	13.5				(23.5)	(63.4%)	(4.3)	(24.0%)
Gas Margin	0.3	2.1%			(0.0)	1.2%	(0.1)	(0.3%)

12. Total sales to January 2025 were £73.7m and are £4.9m lower than budget and £0.9m lower than last year. Framework rebate income continues to perform well at £0.4m ahead of last year and timeliness of billing activity continues to improve in this area.
13. **Stores sales were £47.1m and £4.1m 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. Schools appear to be also changing behaviours to place more purchases within discount windows to achieve better value and are placing more of their available spend earlier in the year. 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, Q4 will be tough trading conditions with school budgets now largely spent.
14. **Gross profit margin % for Stores at 33.3% is 0.8% above budget.** There have 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. Last year margin was affected by a carry forward of higher priced exercise book stocks purchased in 2023/24.
15. **Directs sales were £14.9m and are £0.7m lower than budget.** Further funding pressures on school budgets in 2025/26 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 for directs sales remains weak for Q4.

16. **Gross profit margin % for Directs at 18% is +0.9% 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.
17. **Rebate income of £11.7m is £0.4m ahead of last year and up 3.2% on last year.** It continues to perform well, benefitting from inflation and with a good pipeline in place of contracts secured for the future. ESPO has increased its procurement framework exhibition presence in 2025/26. ESPO may also benefit from the local government funding uplifts benefiting councils' waste packaging budgets, social care, homelessness, roads, and housing. This could lead to potential stronger procurement activity from councils in 2025/26 and through 2026/27, particularly waste & recycling, social care, housing & roads. The Strategic HR services framework continues to be affected by government and council pressures on spend. Focus remains in the Framework team on ensuring billing activity is timely and accurate.
18. Other income is in line with budget overall. Catalogue advertising levels have increased slightly this year as ESPO starts to build its income from digital advertising of supplier's products. Miscellaneous income is in line with budget as ESPO continues to benefit from high interest rates on ESPO's cash deposits, although at a lower rate than prior years.
19. **Overall gross profit margin at £31.3m is £1.0m lower than budget.** The position has mainly been impacted due to lower stock sales volumes from the educational supplies market contraction.

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	14.1	1.8	(1.1)
Agency/Contract	2.0	(0.7)	(0.1)
Total	16.2	1.1	(1.2)
Overhead Expenses			
Transport	2.6	0.2	0.1
Warehouse	0.5	0.1	0.2
Procurement	0.2	0.1	0.0
Sales & Marketing	0.6	0.1	0.0
Finance	1.7	0.1	0.0
IT	1.2	0.0	(0.0)
Directorate	0.7	0.0	0.0
Total	7.5	0.6	0.3
Total Expenditure	23.7	1.7	(0.9)
As % of Total Sales Excluding Gas	32.1%	0.0%	(1.6%)

20. **Total expenditure of £23.7m is £1.7m better than budget** showing good levels of cost control across the business. This mainly relates to vacancies

across operations, procurement, finance and catalogue teams, operational efficiencies enabling reductions in variable fulfilment costs, and adjustment of the confirmed pay award. A continued focus is retained on strong cost control across all areas.

21. **Expenditure as a percentage of sales** is one KPI which allows us to measure cost control in relation to sales. This KPI was 32.1% and is in line with budget and shows costs are being controlled through variable cost reduction activities in relation to the lower sales activity seen this year and the inflationary growth on ESPOs cost base.
22. The 2025/26 pay award was settled and paid in September 2025. The pay award at 3.2% was below ESPO's budget assumption of 3.5% enabling a full year saving of £0.06m.
23. The Autumn 2025 budget announcement by the government included impacts for ESPO on business rates as the government targeted "warehouse giants". There were also increases in fuel duty and the National Living Wage that impact costs in 2026/27. Beyond the budget further Central government and council budget reductions are anticipated impacting framework related income next year.

ETL/Eduzone

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

ETL and Eduzone - Year to January 2026			
£k	Actual	B/(w) than Budget	B/(w) than LY
Eduzone Sales	552	24	72
ETL Sales	831	(117)	(223)
Total Sales	1,383	(93)	(150)
Eduzone Gross Margin	182	(3)	14
Eduzone Gross Margin %	33.0%	(2.1%)	(2.0%)
ETL Gross Margin	262	9	(1)
ETL Gross Margin %	31.5%	4.9%	6.5%
Total Gross Margin	444	6	13
Eduzone Expenditure	(181)	49	36
ETL Expenditure	(129)	18	(10)
Total Expenditure	(310)	67	26
Trading Surplus	134	73	39
Trading Surplus %	9.7%	5.6%	3.5%

25. Total sales of £1,383k are £93k behind of budget.
26. ETL, ESPO's business serving international and private sector customers, is performing well and benefitted from some earlier ordering ahead of the peak summer international sales period. ETL has benefitted from growth strategies, developing relationships with international distributors in the international market, and increased recognition of the ESPO brand overseas. ETL's international sales growth plateaued in 2025 as customers in the APAC area looked to source products directly from source of origin. ETL is now reviewing its international growth strategies in readiness for the 2026/27 year.

27. ETL has a significant element of its trade business in the Middle East and is likely to be impacted by the instability in the region.
28. 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 2025/26 with potential further closures of independent nurseries impacting Eduzone income.
29. Margin and expenditure are both performing better than budget and costs are being controlled.
30. Overall, a £134k surplus has been generated, £73k ahead of budget and £39k better than last year.

Full Year Expectation

31. For the full year, the budget is a surplus of £7.3m. There are several risks and opportunities that could impact ESPO across the second half of the year:
 - i) 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.
 - ii) 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.
 - iii) Catalogue margin percentages have been strong across the first 10 months. Product mix and cost price increases may affect the final quarter.
 - 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.
 - v) Framework Rebate income has progressed well year to date, however central government policy on back-office budget reductions and consulting is impacting central government customer spend on HR and Consulting frameworks.
 - vi) The March period usually makes a small loss as catalogue printing and distribution costs are incurred for the year ahead and it also represents a slow month for rebate collection. This is allowed for in the budget and outturn.
 - vii) VAT is 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 and many others have merged.
 - viii) Autumn budget announcements included changes to business rates as the government targeted "warehouse giants". There were also increases in fuel duty and the National Living Wage that impact costs in 2026/27. Beyond the budget further central government and council

budget reductions are anticipated impacting framework related income next year.

- ix) The war in the Middle East has various impacts upon ESPO and may directly impact ETLs International Sales across 2026/27. ESPO is already considering mitigations including early ordering where needed, enhanced stock management, to ensure good availability and optimising deliveries but also predicting any issues in sourcing products and speaking with suppliers to mitigate any sourcing risks.

The main impacts are expected to be as follows:

- i. Product Costs - Significant upward inflationary pressure from increased energy, petrochemical and shipping costs.
- ii. Availability - Risk of longer lead times, stock shortages on imported goods.
- iii. Logistics - Increased fuel costs on ESPO's own fleet, higher shipping rates from contractors, higher insurance fees.
- iv. School Budgets - Increased inflation may reduce customer spending power further reducing sales volumes.
- v. Supplier Behaviour – Potentially more volatility in pricing, stricter terms, and reduced guarantees.

32. The latest guidance for the full year is a trading surplus of £7.8m-£8.0m, £0.5m-£0.7m better than budget.

Operational Progress

33. In January, ESPO's distribution centre picked and despatched 92,533 order lines valued at £3.233m, and the transport fleet with couriers made 14,946 deliveries with a combined weight of 1,449 tonnes. Both carrier and in-house fleet on-time performance is being measured on a weekly basis and reported through the weekly trading meeting. ESPO are looking to reprocur our carrier partners in the year ahead following a planned tendering exercise. Warehouse picking was performed at a rate of 35 lines per hour against our target of 32. The average order value for stock orders to January 2026 was £238.98 compared to £228.09 to January 2025. Operational, Customer Services and IT costs year to January 2025 were £12.897m against a budget of £13.733m. Stock availability averaged 99.2% in January; the stock value was £10.659m with a stock turn of 5.17.

34. The Operations team have been working on improving customer delivery lead-times, which includes a guaranteed next-day delivery service. This new service is now being trialled with our courier partner. The initiative forms part of a broader programme to enhance service levels across all delivery channels, with the aim of incorporating these improvements into the ESPO offer for 2026/27. Approval was given to purchase four new 3.5T vans which includes two electric Renault Master vans and 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, with all drivers in both Leicester and Wales receiving their training.

35. The Customer Services Team handled 3,401 calls across the three customer service channels in January. Average wait times across all teams was 23 seconds with 96% of all calls answered. The team processed 20,399 customer orders valued at £3.025m. Online and electronic converted orders were at 91% of the total orders processed. Direct orders currently valued at £808k 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. 4,944 responses to email enquiries were recorded using the e-ticketing system. ESPO received 15 service ratings from Feefo and our customer rating was 94%. Customers are now able to provide product reviews via the Feefo app and this is gaining good traction from customers with 19 product reviews received in January.
36. ESPO were delighted to be awarded the Feefo Platinum Trusted Service Award for 2026 that recognises our commitment to outstanding customer service over the long term. To achieve Platinum status, we have maintained a Feefo service rating of over 4.5 (out of 5) for at least three consecutive years. This award is an independent seal of excellence, which recognises organisations that consistently deliver a world-class customer experience.
37. Facilities Management in January ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. The FM team have managed the installation of in-rack sprinklers in the goods out area to conform with insurance requirements. Portable appliance testing was undertaken on all electrical appliances on site. Our application for a Trade Effluent permit has been approved by Severn Trent Water which enables us to set up a new vehicle wash facility that is compliant with environmental regulations. The fire detection system for the ESPO building was upgraded and new lighting was installed on the mezzanine area.
38. In terms of health and safety, one minor injury was reported. An agency picker sustained a cut to their finger whilst cutting a box which was attended by first-aid staff. ESPO's H&S Advisor conducted training in the management of health and safety to 35 ESPO managers. Leicestershire County Council (LCC) Public Health provided 'Health MOTs' on site in November for staff which incorporated blood pressure, BMI, cholesterol and blood sugars. New wearable proximity vibrating alarms have been installed within the narrow aisle chamber to further improve staff safety for those picking whilst the VNA truck is in operation, with training provided to all relevant staff. As part of ESPO's ISO accreditation for Environmental Management the project team are collecting baseline CO2 emissions data in conjunction with AECOM our environmental consultants.
39. The Information Technology (IT) helpdesk handled 699 ticket enquiries with a 100% satisfaction rating from internal customers. In terms of cyber security ESPO's Microsoft overall risk has settled on 81.88 %. Completion rates for the USecure staff cyber training module improved to 97.1%. Work is being undertaken to upgrade the internal certificate infrastructure to address a

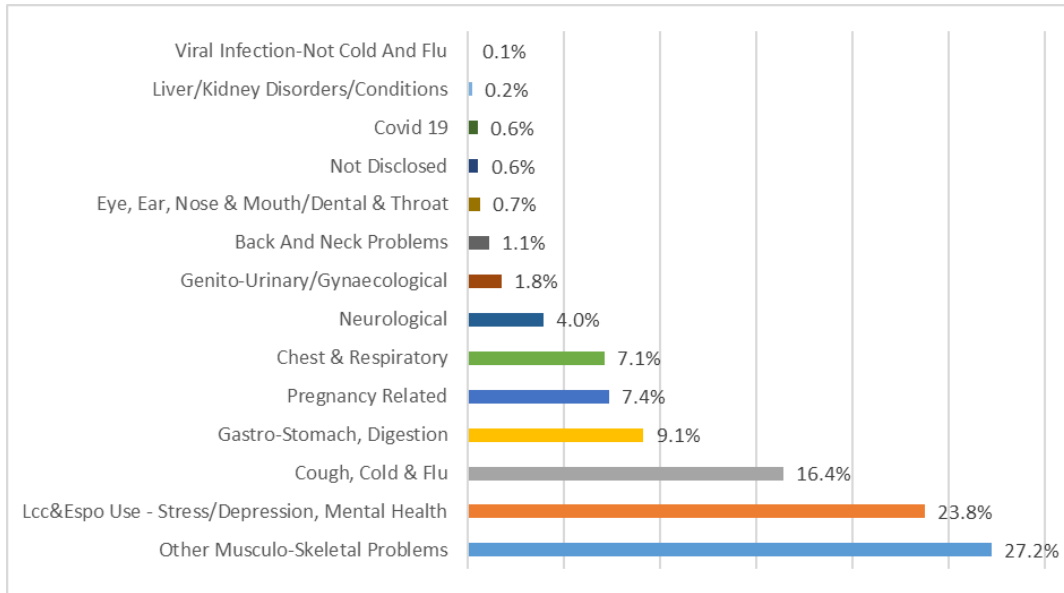
recommendation from the annual penetration testing. The team has been working with the Marketing & Digital to implement the New Punchout on-line ordering system with the team working with new customers as well as engaging the old ones that will need migrating onto the new solution. The team have created a Sharepoint site for the corporate risk register, which will enable updates and mitigations in real time to help manage risks. Finally, new middleware is being deployed to the transport scheduling system to enable the next-day delivery initiative.

Staffing

40. A general update on staffing is included in each Management Committee report by ESPOs HR Business Partner. **This overview of the sickness absence position is as at the end of December 2025 (quarter 3, 2025/26).**
41. Included are the primary reasons for sickness absence for the quarter and brief commentary. Sickness experienced by groups of employees (Warehouse/shift workers and Office based/hybrid workers) can differ and management approaches tailored. This briefing is designed to provide a summary and the actions that are taken to both support all employees and prevent absence due to sickness.

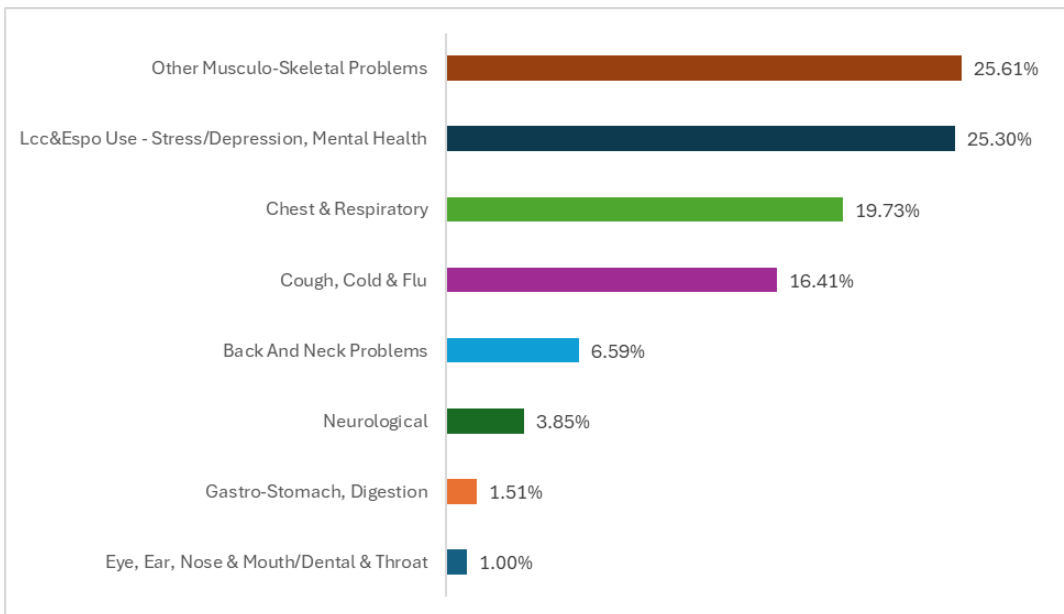
Overview of Staffing and Absence

42. As at the 31 December 2025 ESPO had 353.29 FTE employees. This is 203.14 FTE that work in the Warehouse/ subject to shift work and 150.05 FTE that are office based/able to work in a hybrid working environment. Multiple workplace studies have found that there can be stark differences in the causes, reasons and levels of absence between warehouse and office workers.
43. Warehouse staff are typically subject to more physical and environmental factors such as musculoskeletal disorders (lifting, carrying and standing), exposure to differing temperatures and working at height, and psychological pressure relating to high pressure routines and differing working patterns (shifts).
44. Office based staff are more prone to mental health concerns (with a higher likelihood of stress or greater strain from sedentary work). They are often more likely to work whilst unwell (presenteeism) as hybrid working can facilitate this.
45. **Overall, the reasons for sickness absence in Quarter 3** (a total of 802.6 FTE days or 2.27 days per FTE) were:



Warehouse/ Shift workers

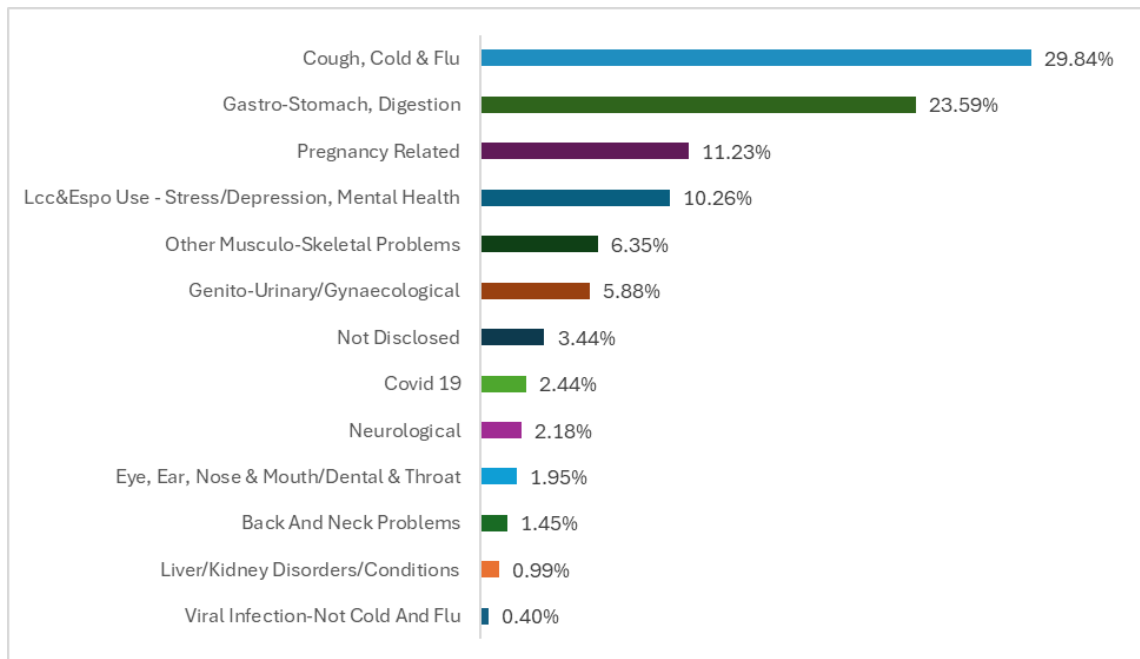
46. Warehouse/ shift workers lost a total of 597.9 FTE days (equating to 2.94 days per FTE). **The reasons for this absence were:**



47. 191.33 days or 32% of all absence related to back, neck or other musculoskeletal and 224.41 days or 37.7% related to seasonal absence such as cough, cold & flu, gastro-stomach, etc.

Office based/ Hybrid Workers

48. Office based/Hybrid Workers lost a total of 204.7 FTE days (equating to 1.36 days per FTE). **The reasons for this absence were:**



49. 15.96 days or 7.8% of all absence related to back, neck or other musculoskeletal and 115.25 days or 56.3% related to seasonal absence such as cough, cold & flu, gastro-stomach, etc.

Preventative Action Taken

50. The following actions are taken to support employees with their Health, Safety and Wellbeing:
- i) All employees, regardless of their role, are obliged to undertake standard and relevant Health and Safety Awareness Training as part of the Health and Safety at Work Act.
 - ii) Warehouse/shift workers are also required to undertake training/learning related to their working environment (manual handling, working at heights, etc.) and are subject to regular toolbox talks by supervisors/managers on lessons learnt from near misses and accidents/ injuries at work as well as refreshers on current practice and procedures.
 - iii) A dedicated Health and Safety Advisor is onsite and responsible for risk assessments, investigations, and regular review of the working environment and practices being used.
 - iv) All employees who use display screen equipment (including handheld devices) are required to undertake regular training and workstation assessments, irrespective of their working base (these must be undertaken for any workstation used in the performance of their duties including home working).
 - v) Health MOTs have been offered to all staff, targeting those that are based onsite (warehouse/ shift workers). This includes blood pressure, cholesterol and BMI checks as well as mental health check-ins.
 - vi) Onsite free to employee Flu vaccinations have been offered to all staff.

- vii) Managing Difficult Conversations Training has been offered to all managers to develop their skills in talking with staff, especially in relation to health, safety and wellbeing.
- viii) The LCC employee wellbeing programme has been advertised (both digitally and physically) to raise awareness of the free eye tests, mental health support available (including counselling services, support groups, such as the bereavement support group, training and e-learning and targeted support available for help relating to substance misuse and gambling, domestic abuse, employees affected by cancer, stop smoking and reasonable adjustments to support employees in work with changes and/or adjustments.

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

Officer(s) to Contact

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