ESPO MANAGEMENT COMMITTEE – 17 JUNE 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

2. 2025/26 represents a record year for ESPO, delivering a surplus growth ahead of plan despite sustained market contraction, demonstrating the strength and resilience of the organisation's diversified business model.

3. For the 12 months ending March 2026, ESPO delivered a surplus of **£8.3m, which is £1.1m ahead of budget, £1.0m ahead of the prior year and £1.0m ahead of the uplifted Medium Term Financial Strategy (MTFS**). This represents a very strong financial performance in the context of a contracting educational supplies market and reflects ESPO's ability to grow market share, maintain margin discipline and continue expanding its procurement frameworks business.

4. This outcome represents cumulative surplus growth of 85.1% over the last five years, with average annual growth of 14.5%, demonstrating a sustained and consistent improvement in financial performance and underlying resilience of the ESPO business model.

5. The expected dividend pool for members is £6.2m. As in previous years, individual member allocations will be linked to their level of utilisation of ESPO services.

Year to March 2026 – Period 12				
£m	**Actual**	**B/(w) than Forecast**	**B/(w) than Budget**	**B/(w) than LY**
Stores Sales	54.7	(3.4) (5.9%)	(4.9) (8.3%)	(1.2) (2.1%)
Direct Sales	17.9	(0.9)	(0.9) (4.6%)	(0.7) (3.7%)
Rebate income	13.8	(0.2)	(0.2) (1.3%)	0.6 4.6%
Total Sales (Exc Gas)	**86.4**	**(4.5)** (4.9%)	**(6.0)** (6.5%)	**(1.3)** (1.4%)
Stores Margin %	33.3%	0.0%	0.8%	2.7%
Directs Margin %	18.0%	0.9%	0.9%	(0.0%)
Total Gross Margin	36.8	-1.2	-1.2 (3.2%)	1.6 4.5%
Total Expenditure	28.4	2.3	2.3 8.9%	(0.6) (2.0%)
Trading Surplus	**8.3**	**1.1**	**1.1**	**1.0**
Trading Surplus %	9.7%	1.7%	1.8%	1.3%

6. Performance in 2025/26 has been delivered against a challenging external environment, with continued contraction in the educational supplies market driven by funding pressures across schools. Despite this, ESPO has maintained and grown its market share, supported by competitive pricing, strong product availability, and consistently high levels of customer service.

7. Framework rebate income has continued to perform strongly, increasing by £0.6m compared to the prior year. Growth has been supported by inflationary uplift, targeted growth strategies and improvements in the customer journey, alongside strengthened billing processes. While public sector funding constraints—particularly within Central Government back-office spend—have impacted certain frameworks, this has largely been offset by growth across other areas of the portfolio.

8. Customer demand within the educational supplies market remained subdued throughout the year, with sector intelligence indicating weak confidence and reduced discretionary spend. Schools continue to prioritise essential purchases and are increasingly altering purchasing behaviours, including bringing forward spend earlier in the year and concentrating activity within discounted pricing windows. ESPO has responded effectively to these dynamics through targeted sales campaigns, development area growth and structured promotional activity.

9. Margin performance has remained resilient despite lower sales volumes. Total gross margin was £36.8m, £1.2m below budget due to reduced volumes; however, underlying margin percentages were ahead of budget across both Stores and Directs. Stores margin of 33.3% was 0.8% above budget and Directs margin of 18.0% was 0.9% above budget, reflecting effective margin management, disciplined pricing and favourable product mix. Margin performance strengthened in the final quarter, partially offsetting volume pressures.

10. Cost control has remained a key strength throughout the year. Total expenditure of £28.4m was £2.3m favourable to budget, driven by active management of variable costs, operational staffing efficiencies, vacancy management and tight control of overheads. This disciplined approach has enabled ESPO to offset the impact of lower gross margins arising from reduced sales volumes.

11. Trading activity followed the expected seasonal profile, with a softer final quarter as school budgets were largely committed earlier in the financial year. February and March trading was further impacted by lower rebate activity and the timing of catalogue print and distribution costs.

12. Looking ahead, there remains a high degree of caution over demand in 2026/27. Market intelligence and ongoing customer feedback indicate that financial pressures within schools are expected to persist, with further reductions in discretionary spend likely. Purchasing behaviour is expected to continue evolving, with increased price sensitivity, greater competition for customer spend and a continued shift towards earlier purchasing cycles.

13. Geopolitical developments, particularly the ongoing instability in the Middle East, present an additional risk to ESPO, with potential supply chain disruption and a direct impact on ETL's international trading activity. Mitigation actions are in place, including enhanced stock planning, early ordering where appropriate, and close engagement with suppliers to manage sourcing risks and maintain product availability.

14. Overall, ESPO has delivered a strong financial performance in 2025/26, with disciplined cost control and resilient margin performance more than offsetting the impact of lower sales volumes. This demonstrates the strength of ESPO's diversified model and provides a robust platform heading into a more uncertain 2026/27 trading environment.

Sales and Margin

Sales and Margin

£m	Actual		B/(w) than Forecast		B/(w) than Budget		B/(w) than LY	
Stores Sales	54.7		(3.4)	(5.9%)	(4.9)	(8.3%)	(1.2)	(2.1%)
Direct Sales	17.9		(0.9)		(0.9)	(4.6%)	(0.7)	(3.7%)
Rebate income	13.8		(0.2)		(0.2)	(1.3%)	0.6	4.6%
Total Sales	**86.4**		**(4.5)**		**(6.0)**		**(1.3)**	
Stores Margin	18.2	33.3%	(0.0)	(2.5%)	(1.1)	0.8%	1.1	2.7%
Directs Margin	3.2	18.0%			0.0	0.9%	(0.1)	(0.0%)
Rebate income	13.8				(0.2)	(1.3%)	0.6	4.6%
Gas Margin	0.4	1.9%			(0.0)	1.1%	(0.0)	0.6%
Catalogue Advertising	0.6				0.1		0.1	
Misc	0.5				0.0		(0.0)	
Total Gross Margin	**36.8**	**42.5%**	**(1.2)**		**(1.2)**	**1.4%**	**1.6**	**2.4%**

Gas

£m	Actual				B/(w) than Budget		B/(w) than LY	
Gas Sales	18.9				(30.0)	(61.3%)	(11.7)	(38.1%)
Gas Margin	0.4	1.9%			(0.0)	1.1%	(0.0)	0.6%

15. **Total sales to March 2026 were £86.4m**, £6.0m below budget and £1.3m below the prior year, reflecting the continued contraction in the educational supplies market. This reduction in volumes is consistent with wider sector pressures, particularly within schools where funding constraints have driven reduced discretionary spend. Despite this, framework rebate income has continued to perform strongly, increasing by £0.6m compared to the prior year, supported by both underlying growth and improved timeliness of billing activity .

16. **Stores sales of £54.7m** were £4.9m behind budget, with performance remaining under pressure in the second half of the year, particularly across core member and established customer bases. This reflects sustained funding pressures within schools, including inflationary impacts on pay, energy and operational costs. ESPO responded proactively through targeted growth activity in development areas and the effective deployment of promotional and loyalty-based offers, which helped partially offset the decline in core markets. Customer purchasing behaviour continues to evolve, with increased concentration of spend within discount periods and earlier ordering in the financial year to maximise value for money. As anticipated, trading conditions in

Q4 were particularly challenging as school budgets were largely committed earlier in the year. The market remains highly competitive, with customers increasingly price-sensitive and actively comparing offers, however ESPO's structured promotional activity and pricing remains effective in retaining customer engagement and supporting value-led purchasing decisions. This performance, within a contracting market, indicates that ESPO has continued to gain market share, particularly through targeted growth in development areas and retention of core customers.

17. **Gross profit margin for Stores was 33.3%,** 0.8% ahead of budget. Margin performance has benefited from a more stable supplier pricing environment relative to prior years, enabling ESPO to maintain a consistent and competitive pricing strategy throughout the year without the need for in-year price adjustments. In addition, the prior year was impacted by higher-cost stock carried forward, particularly within exercise books, further supporting the year-on-year improvement.

18. **Directs sales were £17.9m,** £0.9m below budget, reflecting continued deferral of larger, non-essential purchases such as furniture and equipment as schools prioritise essential expenditure. This trend is expected to persist into 2026/27, with outlook for Directs remaining subdued in the short term given ongoing budget constraints within the education sector.

19. **Gross profit margin for Directs was 18.0%,** 0.9% ahead of budget. This improved performance was largely driven by improved target margin setting, favourable product mix and selective in-year supplier cost reductions. The stronger margin performance has partially mitigated the impact of lower volumes within this category and reflects effective margin management and pricing discipline.

20. **Rebate income of £13.8m delivered a strong full-year performance,** increasing by £0.6m (4.6%) on the prior year. Growth has been driven by inflationary uplift, continued expansion of the framework portfolio and improved billing timeliness. However, underlying spend constraints remain evident in certain Central Government frameworks. ESPO has increased its procurement framework marketing and exhibition activity during 2025/26 and is planning further expansion in 2026/27 to support future pipeline growth. Potential upside may arise from targeted local government funding allocations in areas such as waste, social care, housing and infrastructure, which could stimulate increased procurement activity. However, some frameworks—particularly Strategic HR services—continue to be impacted by broader public sector cost control measures. Continued focus remains on ensuring billing is both accurate and timely to optimise income realisation. This continued growth reinforces the increasing importance of procurement frameworks as a key and more resilient income stream within ESPO's diversified operating model

21. **Other income is broadly in line with budget.** Catalogue advertising income has increased modestly as ESPO develops its digital advertising offer for suppliers, supporting longer-term diversification of income streams. Interest income has remained favourable, reflecting the continued benefit of elevated

interest rates on cash balances, albeit at a reduced level compared to the prior year.

22. **Overall gross profit of £36.8m is £1.2m below budget,** driven primarily by lower sales volumes within the educational supplies market. Margin performance has remained resilient across the year, with both Stores and Directs achieving margin percentages above budget. This reflects effective margin management, disciplined pricing strategy and favourable product mix, consistent with ESPO's approach of protecting value and maintaining competitiveness in a highly price-sensitive market.

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	17.0	2.1	(1.3)
Agency/Contract	2.3	(0.8)	0.1
Total	**19.3**	**1.2**	**(1.3)**
Overhead Expenses			
Transport	3.0	0.4	0.3
Warehouse	0.7	0.1	0.1
Procurement	0.3	0.1	0.0
Sales & Marketing	1.0	0.2	0.0
Finance	1.9	0.2	0.2
IT	1.4	0.1	0.0
Directorate	0.8	0.1	0.0
Total	**9.1**	**1.1**	**0.7**
Total Expenditure	**28.4**	**2.3**	**(0.6)**
As % of Total Sales Excluding Gas	32.9%	0.0%	(1.1%)

23. **Total expenditure of £28.4m is £2.3m favourable to budget**, reflecting strong financial discipline and effective cost control across the organisation. The underspend primarily arises from a combination of operational staffing efficiencies and vacancy management, proactive control of variable fulfilment and overhead costs in response to lower volumes, and the impact of a lower-than-anticipated pay award. This demonstrates the organisation's ability to respond flexibly to changing trading conditions while maintaining tight control over its cost base. A continued and embedded focus on cost discipline will remain a priority throughout 2026/27.

24. Expenditure as a percentage of sales remained consistent with budget, indicating that cost management has been maintained despite inflationary pressures across the underlying cost base. This reflects effective alignment between operational spend and trading performance, ensuring that cost ratios remain stable even as external pressures continue to impact input costs.

25. The 2025/26 pay award was agreed at 3.2% and implemented in September 2025. This was below the original budget assumption of 3.5%, generating a full-year saving of £0.06m. While this provided a modest benefit in-year, pay remains a key area of cost risk given the ongoing uncertainty and timing of Local Government pay settlements.

26. The Autumn 2025 Budget introduced a number of measures expected to increase cost pressures in 2026/27. These include changes to business rates, with a specific focus on large-scale warehousing, alongside increases in fuel duty and the National Living Wage. These factors are expected to drive higher operational costs, particularly within logistics and staffing. In addition, wider Central Government and local authority budget reductions are anticipated to place further pressure on demand, particularly within procurement frameworks. These developments will require continued focus on cost efficiency, productivity improvements and careful financial planning to mitigate their impact.

ETL/Eduzone

27. ESPO Trading Limited (ETL) and Eduzone represent ESPO’s trading activities within the private sector and international markets, providing a complementary revenue stream to the core public sector business.

28. ETL delivered a mixed performance during the year. Early growth was supported by strong international sales activity; however, this has moderated as some customers have sought to source products closer to origin and geopolitical developments have increased uncertainty in key markets. In response, ETL is reviewing its international strategy to ensure it remains resilient and appropriately targeted for 2026/27 and beyond.

29. A significant proportion of ETL’s trade is concentrated in the Middle East, which continues to present heightened geopolitical risk. This may impact future demand and trading performance and remains an area of active monitoring and risk management within the business.

30. The Early Years sector, served primarily through Eduzone, faces increasing financial pressure. Increases to Employer National Insurance and the National Living Wage from April further constrained customer budgets and will further heighten cost pressures in 2026/27.

31. A key strategic achievement during the year has been the successful integration and “hive-up” of the Eduzone business into ETL. This has simplified the Group structure and created a single, more efficient trading platform. Benefits realised include reduced duplication of systems and processes, improved cost efficiency, clearer financial reporting, and strengthened governance and control. The integration has also enabled improved alignment of pricing, margin management and customer strategy, alongside enhanced opportunities to leverage Eduzone’s specialist product offer within the wider ETL infrastructure. This builds on the successful merger activity highlighted in-year, strengthening the long-term commercial platform for growth.

32. Across both ETL and Eduzone activities, margin discipline and cost control remained strong, supporting overall performance despite market headwinds.

33. In total, the combined ETL and Eduzone businesses delivered a full year trading surplus of £162.8k, which is £69.2k ahead of budget and £115.2k ahead of the prior year, reflecting both improved operational performance and the early benefits of organisational integration.

Operational Progress

34. In April, ESPO's distribution centre picked and despatched 65,209 order lines valued at £2.367m, and the transport fleet with couriers made 13,579 deliveries with a combined weight of 952 tonnes. Both carrier and in-house fleet achieved on-time performance of 98% and this is being reported through the weekly trading meeting. Warehouse picking was performed at a rate of 37 lines per hour against our target of 32. The average order value for stock orders to April 2026 was £178.25 compared to £173.94 in April 2025. Combined operational, Customer Services and IT costs year to April 2026 were £1.198m against a budget of £1.179m. Additional distribution costs associated with fuel surcharges were £24k higher than budget. Fuel costs are being monitored through the ESPO corporate risk register and Leadership Team. Stock availability averaged 99.17% in April with the Top 100 lines at 99.6%; the stock value was £12.881m with a stock turn of 4.28.

35. The Operations Team, in conjunction with IT, successfully delivered a significant enhancement to customer delivery lead-times, introducing a guaranteed next-day delivery service for those customers who request the service. This capability has been implemented across ESPO's own fleet and external courier partner network, strengthening ESPO's service performance and customer offering. As part of the fleet replacement programme four new 3.5T vans were delivered in April which includes two Electric Renault Master vans. ESPO also took delivery of six new large goods vehicles from DAF in April to replace life-expired vehicles. These are in the process of having the ESPO livery applied.

36. The Customer Services Team handled 2,963 calls across the three customer service channels in April. Average wait times across all teams was 27 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 £760k 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. 4,026 responses to email enquiries were recorded using the e-ticketing system. ESPO received 15 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 traction with customers with 14 product reviews received in April.

37. ESPO were delighted to be shortlisted for the Educational Resource Awards Supplier of the Year Award in April. This follows the award of the Feefo

Platinum Trusted Service Award for 2026 that recognises our commitment to outstanding customer service over the long term. This award is an independent seal of excellence, which recognises organisations that consistently deliver a world-class customer experience.

38. Facilities Management in April 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 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.

39. In terms of health and safety, one injury was reported. A member of the warehouse team tripped over a bin and sustained bruising to their side. This has been reported as a RIDDOR. A safety bulleting was circulated to shift managers on trip hazards. A review of mental health first aid provision was conducted with HR to enable staff who qualified before the training delivered through the LCC learning hub (now Thrive) to be contacted to ensure that they complete the required refresher training. A JCC meeting was held on 17th April with GMB and Unison as part of our regular schedule which allows for information on HR, Operations Health & Safety to be exchanged and discussed.

40. In terms of environmental management governance ESPO are making good progress on achieving ISO 14001 accreditation. A stage 1 audit to assess compliance with the standards is set for June 1st and regular meetings of the environmental project team continue in conjunction with our environmental consultants.

41. The Information Technology (IT) helpdesk handled 694 ticket enquiries with a 100% satisfaction rating from internal customers. In terms of cyber security ESPO’s Microsoft Secure Score was 86.89% an increase of 3.59% on last month. All patching is being processed through Microsoft 365 to ensure prompt remedial action is taken. The Firewall firmware was updated from version 7.2.11 to 7.6.6. Completion rates for the USecure staff cyber training module improved to 97.6%.

42. The IT team supported the launch of customer promotions including Loyalty Offer, Early Summer Offer, usual MAT offer and some customer specific offers, creating 23 different pricelists for the year 26/27. Following the website upgrade to the latest Magento version, the IT team supported the Digital team to enable customers to re-connect their punchout functionality. Finally, the Eduzone migration into System 21 was successfully completed in March. The IT team managed the data migration plan and all customers were successfully moved into Sys21 and the website ahead of the deadline.

Staffing

43. A general update on staffing is included in each Management Committee report by ESPO's HR Business Partner. This overview is for 2025/26 (April 2025-March 2026).

Overview of Staffing and Absence

44. There were 36 new starters and 34 leavers in 2025/6. Reasons for leaving were as follows:

Involuntary (Death in Service, Dismissal, End of Fixed Term Contract)	10
Resignation	20
Retirement	4

Turnover for 25/26 was 9.3%, against a national average of 27.4%*

45. Over 58.6% of the workforce have been with ESPO for 5 years or more. This supports the staff survey that employees feel ESPO is a good place to work and want to stay.

46. There was an average of 28.4 applicants for every vacancy advertised by ESPO, demonstrating a high interest in ESPO as an employer.

*CIPD- Benchmarking employee turnover: What are the latest trends and insights?- June 2024.

Absence

47. The three primary causes of absence, in relation to days lost, during the year were:

	FTE Days Lost	Percentage
Stress/Depression, Mental Health	830.64	24.95%
Other Musculo-Skeletal Problems	619.23	18.60%
Cough, Cold & Flu	473.58	14.23%

However, the instances of absences are:

	Instances
Cough, Cold & Flu	108
Gastro-Stomach, Digestion	86
Other Musculo-Skeletal Problems	42
Stress/Depression, Mental Health	37

48. Overall, in 2025/26, there has been a general reduction in sickness relating to stress/depression, mental health but an increase in seasonal/ viral related reasons (such as cough, cold, flu, gastro-stomach, etc.)

49. A large programme of wellbeing support and intervention has been introduced for 2026/27 (including Health MOTs, Workforce Wellbeing Index, proportion of support available, etc).

Wellbeing index

50. ESPO is commissioning and supporting a Workforce Wellbeing Index (WWI), in coloration with Leicestershire County Council's Public Health. A WWI is a structured, evidence-based tool that integrates quantitative workforce data (such as sickness absence, turnover, and HR metrics) with qualitative insights from staff surveys, focus groups, staff networks, and trade unions. This is being led by a senior colleague in LCC's Public Health, with support from ESPO Leadership Team and HR. It adopts a systems-thinking approach, recognising the interdependencies between wellbeing, organisational culture, leadership behaviours, and performance and provides a quantifiable basis on which to develop improvement and support plans for the organisation.

Resources Implications

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

Recommendation

52. 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

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

Background Papers

None.

Appendices

Risk Review Extract

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