ESPO MANAGEMENT BOARD – 16 SEPTEMBER 2026

PROGRESS UPDATE

REPORT OF THE MANAGING DIRECTOR

Purpose of the Report

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

Financial Performance update

Summary

Year to July 2026 – Period 4			
£m	**Actual**	**B/(w) than budget**	
Stores Sales	25.7	0.7	3.0%
Directs Sales	5.6	(0.2)	(3.4%)
Rebate Income	5.1	(0.2)	(3.4%)
Total Sales (Exc. Gas)	**36.4**	**0.3**	**0.9%**
Stores Margin %	35.1%	0.6%	
Directs Margin %	18.1%	0.6%	
Total Gross Margin	15.8	0.2	1.1%
Total Expenditure	10.4	0.1	0.8%
Trading Surplus	**5.4**	**0.2**	
Trading Surplus %	15.0%	0.6%	

2. **After 4 months, a surplus of £5.4m has been made which is £0.2m better than budget** and £0.1m better than last year.

3. Trading conditions have remained challenging since the budget was prepared, with the educational supplies market continuing to contract as schools prioritise essential spending amid ongoing funding pressures, higher staff costs and wider inflationary impacts. Despite these headwinds, ESPO has continued to outperform the market through competitive pricing, customer retention initiatives and targeted growth in strategic product categories.

4. Following the launch of the new catalogue on 1 April, trading performance has been resilient, with volumes largely tracking revised expectations despite softer underlying market demand.

5. Framework rebate income has also started well although is slightly behind budget associated with delays to receiving supplier information rather than performance.

6. **Costs continue to be tightly controlled with expenditure of £10.4m, £0.1m better than budget**. Savings have been driven mainly by procurement vacancies. In addition, the 26/27 pay offer is slightly higher than the budget assumption and provides a £50k cost pressure across the year.

7. **The full-year budget assumes a surplus of £7.5m**. The first four months have delivered a positive performance, supported by stronger margins and targeted growth initiatives. However, the sector continues to face significant funding pressures, resulting in many schools delaying discretionary purchases and capital replacement programmes, creating ongoing uncertainty over demand levels during the remainder of the year.

8. Once ESPO has completed trading through the Autumn mini peak when schools return a considered view on the year end outturn will be taken. For now, the **latest guidance for the full year is a trading surplus of £7.7m**.

Sales and Margin

Sales and Margin				
£m	**Actual**		**B/(w) than budget**	
Store Sales	25.7		0.7	3.0%
Direct Sales	5.6		(0.2)	(3.4%)
Rebate Income	5.1		(0.2)	(4.1%)
Total Sales	**36.4**		**0.3**	
Stores Margin	9.0	35.1%	0.4	0.6%
Directs Margin	1.0	18.1%	(0.0)	0.6%
Rebate Income	5.1		(0.2)	(4.1%)
Gas Margin	0.1	3.7%	0.0	3.0%
Catalogue Advertising	0.4		(0.1)	
Misc.	0.2		0.0	
Total Gross Margin	**15.8**	**43.6%**	**0.2**	**0.1%**

9. **Total sales to July 2026 were £36.4m, are £0.3m ahead of budget**. Rebate income is generally performing well with collections ahead of last year although slightly impacted by delays in receiving supplier information.

10. **Stores sales of £25.7m are £0.7m ahead of budget**, reflecting continued customer loyalty, successful catalogue activity and the strength of ESPO's value proposition. This performance has been achieved despite a contracting market, reflecting ESPO's efforts to capture market share and maintain relevance with customers facing increasing budget constraints.

11. ESPO continues to mitigate the impact of market contraction through disciplined pricing, investment in strategic growth categories and ongoing efforts to broaden its customer base helping sustain sales performance and support market share growth despite challenging external conditions.

12. **Gross profit margin value for Stores is £0.4m ahead of budget. Margin % for Stores at 35.1% is 0.6% ahead of budget**. ESPO continues to monitor competitor pricing on key lines to ensure pricing remains competitive. A key element of the pricing strategy is to offer great everyday value to customers,

rather than applying many promotions through the year. As ESPO enters the autumn mini-peak trading period, pricing and promotional activity will continue to be actively managed to balance volume growth with margin delivery, ensuring the organisation remains competitive while protecting profitability.

13. **Directs sales of £5.6m are £0.2m below budget**, mainly reflecting customer deferral of higher-value discretionary purchases such as furniture and equipment. While demand remains subdued, the current sales pipeline provides confidence that a proportion of this shortfall can be recovered during the autumn trading period. The budget assumed a similar volume to 25/26 however school funding pressures continue to impact this area where items such as classroom furniture and equipment replacement, can be delayed.

14. **Gross profit margin % for Directs at 18.1% is +0.6% ahead of budget**, but this is largely due to the mix of product sold. Whilst margin percentage is 0.6% above budget, lower sales volumes mean margin value remains broadly in line with budget. Margin % is expected to return to budgeted levels as progress is made throughout the year.

15. **Framework rebate income of £5.1m is £0.2m ahead of last year, demonstrating the continued strength and relevance of ESPO's framework portfolio**. Although slightly behind budget, this largely reflects the timing of supplier data submissions rather than underlying performance. Activity levels and the contract pipeline remain encouraging despite ongoing pressures on public sector budgets and procurement expenditure. Other income is largely in line with budget. Overall gross profit margin at £15.8m is £0.2m better than budget.

Expenditure

Expenditure		
£m	**Actual**	**B/(w) than budget**
Employee costs		
Staff	5.7	0.2
Agency/Contract	1.1	(0.1)
Total	**6.8**	0.1
Overhead expenses		
Transport	1.5	(0.1)
Warehouse	0.2	0.0
Procurement	0.1	0.0
Sales & Marketing	0.3	0.0
Finance	0.7	(0.0)
IT	0.5	0.0
Directorate	0.2	0.0
Total	**3.6**	**(0.0)**
Total Expenditure	**10.4**	**0.1**
As % of total sales excluding gas	28.6%	0.0%

16. **Total expenditure of £10.4m is £0.1m below budget**, reflecting continued financial discipline and proactive cost management across the organisation. Savings have been achieved without impacting operational delivery and provide some mitigation against emerging inflationary pressures, including the higher-than-assumed national pay award.

17. Staff costs include an assumption for a 3.0% 26/27 Local Government pay award which has initially been offered at 3.3% providing a cost pressure across the year of £0.05m.

ETL/Eduzone

18. ETL is ESPOs limited company which serves the private sector.

Year to July 2026 – Period 4		
£k	**Actual**	**B/(W) than budget**
ETL Sales	639	(133)
ETL Gross Margin	220	(23)
ETL Gross Margin %	34.4%	2.9%
ETL Expenditure	(113)	21
Trading Surpius	107	(3)
Trading Surplus %	16.8%	2.5%

19. **Total sales of £639k are £133k below budget**, primarily due to reduced international demand resulting from geopolitical instability in the Middle East. Whilst these factors remain outside management's control, activity levels in domestic private-sector markets continue to provide opportunities for growth.

20. ETL, serves international and private sector customers, and although sales are behind due to weaker international demand, trading remains resilient and the business has delivered a surplus broadly in line with expectations.

21. Following the merger of Eduzone into ETL, the early year market remains challenging in the UK. The nursery market faces similar financial pressures to schools. Nurseries have been struggling to stay afloat due to ever-increasing running costs including utility bills, business rates, food bills, employers NI changes and increases in the National Minimum Wage. Nursery group customers acquisition activity has slowed but Nursery Groups are still performing well due to their balance sheet security, sharing of administrative burden and ability to navigate through staffing shortages.

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

23. **Overall, ETL has generated a surplus of £107k, £3k below budget but £19k ahead of the prior year**. Effective cost control and careful management of expenditure have largely offset the impact of lower sales volumes, resulting in a resilient financial performance despite challenging market conditions.

Full Year Expectation

24. **Based on performance to date, ESPO's current expectation is for a full-year surplus of £7.7m, modestly ahead of the approved budget**. Whilst this reflects the benefits of stronger margins and disciplined cost management, significant uncertainty remains regarding customer spending patterns during the key autumn trading period. Trading activity will be monitored closely and ESPO will revisit the year-end outlook once the autumn mini peak has concluded and a clearer picture of school purchasing behaviour emerges.

ESPO P&L – July 2026

	Year to Date @ July 2026					
	Actual		Budget		Prior Year	
	£000	%	£000	%	£000	%
Sales						
Stores	25,666		24,926	3.0%	25,956	(1.1%)
Direct	5,648		5,850	(3.4%)	5,972	(5.4%)
Rebate Income	5,074		5,290	(4.1%)	4,829	5.1%
Total Sales (Excluding other income)	**36,388**		**36,066**		**36,757**	
Cost of Sales						
Stores	16,667		16,345		17,440	
Direct	4,627		4,826		4,930	
Total Cost of Sales	**21,294**		**21,172**		**22,370**	
Margin						
Stores	8,999	35.1%	8,580	34.4%	8,516	32.8%
Direct	1,021	18.1%	1,024	17.5%	1,042	17.4%
Rebate Income	5,074		5,290		4,829	
Gas	115	3.7%	78	0.7%	121	4.0%
Catalogue Advertising	449		550		560	
Other Income	189		158		119	
Total Margin	**15,848**	43.6%	**15,680**	43.5%	**15,187**	41.3%
Warehouse and Transport						
Employee Costs						
Staff	2,481		2,533		2,466	
Agency/Contract	1,041		945		798	
Total	**3,522**		**3,478**		**3,264**	
Overhead Expenses						
Transport	1,539		1,449		1,263	
Warehouse	245		266		214	
Total Warehouse and Transport	**5,306**	20.7%	**5,193**	20.8%	**4,741**	18.3%
Head Office						
Employee Costs						
Staff	3,269		3,407		3,266	
Agency/Contract	38		38		78	
Total	**3,307**		**3,445**		**3,343**	
Overhead Expenses						
Procurement	63		100		73	
Sales & Marketing	269		270		234	
Finance	711		680		687	
IT	503		529		503	
Directorate	245		268		240	
Total	**1,792**		**1,846**		**1,737**	
Total Head Office	**5,098**		**5,291**		**5,081**	
Total Expenditure	**10,404**	**28.6%**	**10,484**	**29.1%**	**9,821**	**26.7%**
Trading Surplus	**5,444**	**15.0%**	**5,196**	**14.4%**	**5,366**	**14.6%**

Operational Progress

25. In the peak trading period of July, ESPO's distribution centre picked and despatched 195,753 order lines valued at £7.807m, and the transport fleet with couriers made 19,107 deliveries with a combined weight of 1,703 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 July 2026 was £242.31 compared to £227.58 in July 2025. Combined operational, Customer Services and IT costs year to July 2026 were £6.038m against a budget of £5.946m. Distribution costs, associated with increased courier volumes and fuel surcharges, were higher than budget. Fuel costs are being monitored through the ESPO corporate risk register and Leadership Team. Stock availability averaged 97.27% in July with the Top 100 lines at 97.00%; the stock value was £11.580m with a stock turn of 4.7. The recently introduced next-day delivery service continues to perform in line with expectations and is receiving plaudits from customers.

26. The Customer Services Team handled 4,846 calls across the three customer service channels in the peak trading period of July. Average wait times across all teams was 64 seconds, with 92% of all calls answered. The team processed 27,209 customer orders valued at £9.498m. Online and electronic converted orders were at 87.1% of the total orders processed. Direct orders currently valued at £2.441m 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. 6,735 responses to email enquiries were recorded using the e-ticketing system. ESPO received 18 service ratings from Feefo and our customer rating was 96%. Typical comments were "quick delivery", "Great prices and speedy delivery, "Great products and excellent prices." Customers are now able to provide product reviews via the Feefo app, and this is gaining traction with customers with 19 product reviews received in July.

27. Facilities Management in July ensured that all statutory inspections and repair and maintenance services took place on their relevant due date. Repairs were made to the office and server room air conditioning system and to the sprinkler pump system. An inspection was made of the mechanical handling equipment (MHE) batteries by an approved battery services provider. Subsequently a plan was proposed for refurbishment and replacement of batteries across the MHE fleet. Quotations were received for remedial work to the roof gulley. Replacement fire extinguishers were introduced following a review, and downpipe drainage was improved in the car park. A second-floor office was refurbished and a re-alignment of desks, to create more space, was made to offices on the first floor.

28. In terms of health and safety, one injury was reported. An agency picker sustained a cut thumb whilst cutting a carton. The safe system of work covers the use of safety knives, and this was not followed in this case. On 9th June, drug and alcohol tests were conducted on a randomised basis across nine

donors in safety-critical roles by ESPO's specialist testing agency. All donors returned negative results for both drug and alcohol. A safety briefing has been created for Section Leader's carrying out visual inspection of mechanical handling equipment and charging stations as part of pre-shift area safety tours. Temperature checks of the warehouse were taken and recorded, during periods where Met office warnings are in place. The maximum temperature recorded was 29.5 degrees on the mezzanine floor at 3:30pm 24 June 2026. The outside temperature was 35 degrees. Additional 'hydration breaks' were put in place across all three shifts.

29. In terms of environmental management governance, ESPO were delighted to have been awarded ISO 14001 accreditation for our Environmental Management System. This follows a successful stage 1 audit to assess compliance with the standards in early June. A further three-day audit was conducted on site, which evaluated ESPO's Environmental Strategy, Environmental Management System Manual, Environmental Policy Statement and ESPO's EMS Objectives and Target. This is testimony to the work of the environmental project team which is made up of staff from across ESPO. We will continue to embed best practice in our planning cycles and monitor progress through robust KPIs.

30. The Information Technology (IT) helpdesk handled 866 ticket enquiries with a 100% satisfaction rating from internal customers. In terms of cyber security ESPO's Microsoft Secure Score was 85.35% an increase of 0.40% on last month. All patching is being processed through Microsoft 365 to ensure prompt remedial action is taken. Completion rates for the USecure staff cyber training module was 95.7%. Additional training modules are triggered if the pass rate has not been reached. Work continues to prepare for applying for Cyber Essentials accreditation. AI user guidelines have been introduced, providing staff with guidance on AI-related risks and agreeing the terms of use. A number of ESPO staff from across different business functions have enrolled on an AI Apprenticeship course. Work commenced on migrating a range of file servers to a new server. Users have been encouraged to review their data and perform any 'housekeeping' around directories and file names.

Staffing Updates

31. A general update on staffing is included by ESPO's HR Business Partner. This overview is for Quarter 1 2026/27 (April 2026- June 2026).

Overview of Staffing and Absence

32. There were 8 new starters and 7 leavers in Quarter 1. Reasons for leaving were as follows:

Resignation	5
Retirement	2

33. Turnover in Q1 was 1.9% (with an overall previous 12 months turnover of 8.2%) against a national average of 27.4%*

34. Over 58.2% of the workforce have been with ESPO for 5 years or more. This reinforces the staff survey results that 95% of employees feel ESPO is a good place to work.

35. There was an average of 35 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

36. The three primary causes of absence, in relation to days lost, during this quarter were:

	FTE Days Lost	Percentage
Stress/Depression, Mental Health	193.33	38.7%
Other Musculo-Skeletal Problems	180.99	36.2%
Gastro-Stomach, Digestion	84.57	16.9%

However, the instances of absences are:

	Instances
Gastro-Stomach, Digestion	20
Other Musculo-Skeletal Problems	13
Cough, Cold & Flu	11
Stress/Depression, Mental Health	9

37. Overall, so far in 2026/27 there has been a general reduction in sickness relating to stress/depression, mental health (April saw 26.98% attributed to this. May was 18.26% but June only 16.07%)

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

<u>Resources Implications</u>

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

Recommendation

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

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

Officer(s) to Contact

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