

Report to the Cabinet

Report reference: C-050-2020/21
Date of meeting: 3 December 2020



Portfolio: Commercial and Regulatory Services Portfolio Holder – Cllr A. Patel
Subject: Qualis Business Plan 2020-2021
Responsible Officer: Andrew Small (07548 145665).
Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

That Cabinet is Recommend to request that Council agrees the one year Qualis Business Plan, as attached to this report as Appendix A.

1. Executive Summary

- 1.1. Under the terms of the Shareholder agreement between Qualis and the Council, Qualis is required each year to bring forward an annual and a 4 year Business Plan for agreement.
- 1.2. The Business Plan sets out the detailed activities for Qualis in the forthcoming year and, once agreed by the Council, Qualis can deliver these activities without further recourse to the Council.
- 1.3. Approval of the Business Plan represents the Council's main mechanism for annually influencing and controlling the activities of Qualis.
- 1.4. During the year Qualis must only seek Shareholder approval if an action or activity sit outside of the approved Business Plan and is specifically set out as a matter requiring Shareholder approval within the Reserved Matters section of the Shareholder agreement.
- 1.5. The Business Plan presented here is the first full Business Plan produced by Qualis and reflects the ongoing development and positioning of the company. For this reason, and because the final Board has only recently been appointed, Qualis has produced a single year Business Plan for 2020/21. A 4 year Business Plan will be developed and presented to the Council as the new Board of Qualis plans the future strategy for the Group.

2. Introduction

- 2.1. The Shareholder Agreement and Governance arrangements, agreed by Cabinet in February 2020, set out the decision-making framework for Qualis and the ways in which the Council can influence or control Qualis's activities in its capacity as Shareholder.

- 2.2. The principal control will be through the approval of the annual Business Plan. Qualis is required to present its proposals each year within a proposed Business Plan and only if the Council agrees this can Qualis implement the proposals contained within it. This represents the critical control over the activities of Qualis and appropriate and detailed consideration should be given to the sign-off accordingly.
- 2.3. If Qualis wishes to undertake an activity during any year that was not included within the agreed Business Plan then under the 'Reserved Matters' part of the Shareholder Agreement it must ask for the Council's permission first. The full list of reserved matters was published in Schedule 2 of Appendix 1 in the report on Qualis to Cabinet on 6 February 2020.
- 2.4. Matters considered to be 'Reserved' to the Shareholder include issues such as;
- diluting the Council's control,
 - transfer of any part of the business to another body
 - distributing profits outside that agreed
 - allowing its assets to be charged by a third party
 - Winding the company up
 - Or generally acting outside of the approved Business Plan
- 2.5. The careful construction of the shareholder agreement gives the Council considerable assurance that Qualis can only operate within the mandate given to it by Epping Forest District Council and for any matter outside of this, it must seek the Council's express authority.
- 2.6. The Report to Cabinet in February 2020 further set out the following;
- The Section 151 Officer will act in accordance with already sanctioned, business case, budget and loans already agreed or approved by the Cabinet or delegated authorities to the s151 officer (both generally and in its capacity as Shareholder's Representative).
 - The Shareholder Representative / the s151 officer will also bring to the attention of the Cabinet any significant issue or deviation from these approvals on the precautionary principle.
 - Any issue of concern or requiring a decision beyond the parameters of approvals previously provided by Cabinet and Council to the s151 Officer (in their capacity as Shareholder's Representative) the Section 151 Officer will:
 - Firstly, brief the Leader
 - Secondly, if requested set out the issue and decision to Cabinet or Full Council for approval in line with the mandates of the existing EFDC Constitution
- 2.7. The Business plan meets the requirements set out within the shareholder agreement.

3. Business Plan Proposals for 2020-2021

- 3.1. The Business Plan has been prepared for the whole of the Qualis Group for its first full year of operation. As the Board has only recently been appointed just a single year's Business Plan has been developed at this stage. During the coming year the

new board and executive team of Qualis Group will develop a four-year business plan for 2021 – 2025. Qualis Group, as a new entity, will also need to continue to develop its setup and internal governance arrangements in the first full year of operation.

- 3.2. Whilst the expectation of the Shareholder Agreement is that both a single and 4 year Plan will be developed and presented at the same time, it is accepted that the newly appointed Board will want to consider the medium term business strategy of the Group and that this cannot be completed in only a few weeks.
- 3.3. The proposals contained within the single year Business Plan do not diverge significantly from those set out within the original Business Case presented to Council supporting the creation of Qualis. As this is the case, the pause whilst the medium terms strategy is developed, is considered appropriate and will result in a better longer-term vision for the Group.
- 3.4. The Business Plan sets out the main priorities for each of the companies (Commercial, Living, Management and Community) in sections 5 through to 8.
- 3.5. These priorities are essentially those agreed by Council, when agreement was given to create the Qualis Group, and so are already permitted. There are no new specific requests contained within the Business Plan that require the consideration of the Council, but there are initiatives and activities identified that will need to come back to Council in due course when sufficiently worked up and supported by a full business case.
- 3.6. Taking each arm of the Qualis Group in turn;

4. Qualis Commercial (Section 5 of the Qualis Business Plan)

- 4.1. Qualis Commercial is the development arm of the Qualis Group. The activities identified within the Business Plan for Qualis Commercial are focused on;

Bakers Lane Car Park -	New Leisure Centre development for EFDC
Cottis Lane Car Park -	New 330 space multi storey car park
Condor Site -	Residential development of 50 dwellings
St Johns Site -	180 residential properties built to rent
Hemnell Street -	Residential development of 41 dwellings
Roundhills -	Residential development of 80 dwellings
Pyrles Lane -	Residential development of 80 dwellings

- 4.2. All of the development sites, with the exception of Pyrles Lane, were part of the original assets transfer and ambition for Qualis. Pyrles Lane has additional planning issues and will require a separate report to Council seeking authority to transfer when these issues are resolved.
- 4.3. These sites are central to the original justification for creating Qualis and their development and transfer is pre-approved under previous Council decisions. The exact form of the development is subject to a consultation exercise and subject to planning consent, in the same way as any other developer would approach these sites.
- 4.4. The expectation is that Qualis will build the Leisure Centre on behalf of Epping Forest District Council and that the Council will purchase the completed centre when fully developed from Qualis. Similar options exist around the Cottis Lane car park site.

- 4.5. The Council has yet to consider the ownership models associated with these developments and how it might fund them. These will need formal consideration and sign-off as part of the Medium Term Financial Plan and Capital programme development process.
- 4.6. The Council has previously approved the sale of these sites and funded Qualis's acquisition through the provision of the necessary loan finance.
- 4.7. Qualis will also require development finance to undertake the development of these sites and the Council has previously agreed to provide up to £66 million in the form of loans to enable this to happen.
- 4.8. The Council has yet to be formally approached for this loan finance and so terms, security and compliance with current regulations has yet to be considered.
- 4.9. Authority to conclude the terms of this development loan resides with the Council's S151 officer.

5. Qualis Living (Section 6 of the Qualis Business Plan)

- 5.1. Qualis Living has been set-up to hold and manage assets once purchased or developed.
- 5.2. The Council has provided £30 million in loan finance to enable Qualis to purchase commercial assets. To date Qualis has spent £19.6 million on two commercial properties and is actively engaged in trying to identify assets to acquire for the remaining £10.4 million.
- 5.3. The Council makes a return on the loan finance provided to Qualis and will benefit from profits ultimately generated from the vehicle.
- 5.4. Qualis indicated a further £30 million will be sought in May 2021, on which the Council will have first refusal, but this will require a separate report to the Council for permission at the time.

6. Qualis Management (Section 7 of the Qualis Business Plan)

- 6.1. Qualis Management has been created to provide facility management services. As of September, the Housing Maintenance service has been transferred to Qualis.
- 6.2. The transfer of other services was part of the original remit for Qualis, but only if a compelling business case could be made demonstrating either commercial advantage and / or financial savings to the Council as a result of the transfer. This may be through the greater efficiency opportunities or through expanding commercial trading activities beyond the boundaries that local authorities must operate within.
- 6.3. The transfer of future services will require a full business case and options analysis and will need the separate agreement of Cabinet.
- 6.4. Beyond the expansion of the Housing Maintenance Service to include Voids and the Kitchen and Bathroom programmes the Business Plan presented here does not seek any new services transfers, but it is expected that opportunities will be developed and presented to Cabinet during the Business Plan year timeframe.

7. Qualis Community (Section 8 of the Qualis Business Plan)

- 7.1. Qualis Community is intended to complete the Qualis Group of companies and is to be set up as a Community Interest Company (CIC). It's focus will be on improving the economic, social and general wellbeing of the public through a sustainable approach.
- 7.2. The priority for Qualis Community in the Business Plan period is to set up the Community Interest Company.

8. Finance (Section 4 of the Qualis Business Plan)

- 8.1. The Business Plan sets out the Financial projections and forecasts for the Qualis Group for the one year of the Business Plan period and the 4 years thereafter, up to 2024/25.
- 8.2. At the bottom of Page 9 the Business Plan sets out the forecast profits assumed from Group operations over this timeframe. These are provided in the table below;

	2020/21	2021/22	2022/23	2023/24	2024/25
Profit / (Loss)	£238,039	£1,454,238	£2,382,573	£2,509,948	£2,509,311

- 8.3. A Profit and Loss for each of the Qualis Companies is presented within Section 3 of the Business Plan. This is summarised in the table below for 2020/21;

	Total	Group	Commercial	Living	Management
	£	£	£	£	£
Income					
External Income	-2,660,000	0	0	-2,660,000	0
SLA with EFDC	-6,357,341	0	0	0	-6,357,341
Expenditure					
Operating Costs	8,302,105	2,067,178	438,124	94,381	5,702,421
Interest Costs	3,952,418			3,952,418	
Net Cost	3,237,182	2,067,178	438,124	1,386,798	-654,920
WIP - trns to B/S	-3,475,221		-1,547,803	-1,927,418	
Group Recharges	0	-2,129,194	1,064,597	532,298	532,298
Profit / Loss	-238,039	-62,015	-45,082	-8,321	-122,621

- 8.4. In the first full year of trading Qualis forecasts to deliver a profit. However, this is only achieved after £3.475 million of costs are taken to the Balance Sheet as 'Work in Progress'. This is associated with the development sites held by Qualis Living and reflects the accumulated costs of developments, (alternatively this can be considered as anticipated value added to these sites), which will only be realised once the assets are sold. These sit on the Balance Sheet as an asset that will be realised at completion or through sale of a partial development.
- 8.5. There are no stated assumptions within the Business Plan on the distribution or re-investment of these profits.
- 8.6. Qualis remains highly geared through the Business Plan period with almost all of the balance sheet value match by accumulated borrowing. The table below shows the total borrowing, the annual repayment obligations for Qualis and the actual cost to the Council of this borrowing, where is this matched by physical borrowing.

Purpose	Borrowing	Interest	Repayments	EFDC	
				Actual Cost	
	£	£	£	£	
Asset Purchase Loan	(£30m)	1,200,000	-	627,945	Actual
Additional Loan	(£40m)	825,000	-	767,250	Estimated
Working Capital Loan	(£6m)	227,418	1,250,000	-	
Development Loan	(£66m)	1,320,000	2,200,000	1,841,400	Estimated
Development Loan	(£19m)	380,000	633,333	-	
		3,952,418	4,083,333	3,236,595	

8.7. All borrowing is assumed taken at or before the start of the year with the exception of the additional loan which it is assumed will be taken throughout the year.

9. Commentary and Resource Implications

- 9.1. The single year Business Plan submitted by Qualis gives the Council the opportunity to have oversight, demonstrate governance and set direction for the Qualis company vehicle over the period of the Business Plan.
- 9.2. The annual consideration and approval of the Business Plan is main mechanism by which the Council can influence the activities of the company by exercising its Shareholder control. It is therefore necessary that the Council properly and fully understands the function and content of this annual Business Plan approval process as once specific actions are approved through this process Qualis can then deliver those actions without further recourse to the Council.
- 9.3. In practice, Qualis is not specifically seeking the approval of any significant new activities within this business plan and the actions it is proposing are those that were clearly articulated in the business case at its creation this time last year.
- 9.4. The fact that these are the same objectives can be attributed to the time taken, (as significantly delayed due to the impacts of Covid19 on the authority and on Qualis), to set-up of the Board and structures, seek the transfer of assets, organise the loan finance and transfer the Housing Maintenance service. This is largely now all essentially complete and Qualis is poised to actively focus on the delivery, development and management of its activities over the forthcoming year.
- 9.5. As not specifically requested within the plan, any further site transfers, requests for new loan finance or transfer or services during the Business Plan period will require further reports to the Shareholder
- 9.6. It should be remembered that the financial forecasts are, just that, at this stage. The majority of the forecast profits are heavily dependent on either planned activities, planned acquisitions or the delivery of planned efficiencies in current operations. This is therefore speculative at this stage.
- 9.7. It is also the case that the Qualis Business Plan is entirely dependent upon ongoing access to borrowing form either the Council or from other lenders with the Council's permission.

- 9.8. Whilst encouraging, and potentially extremely valuable in terms balancing future MTFP targets, the inclusion of dividends within the Council's financial plans should be approached cautiously and should only be done so when evidenced by a proven track record of delivery on the part of Qualis.
- 9.9. Nonetheless, the Business Plan forecasts point to the significant potential gains to the Council from the development and ongoing support of Qualis. This strongly supports its original creation. It should also be emphasised that profits are in addition to the other ways in which the Council financially gains from Qualis, for example, from the millions the Council earns from the lender margins generated from the loans it has given and may potentially give to fund the future acquisitions and developments proposed.
- 9.10. Further development of the model should be explored and encouraged, but the Council must remain cognisant of the total risk and exposure that it's investment and income streams and borrowing represents to the Council's own financial model. Before undertaking new borrowing the Council should reassure itself that the total weight of repayments is affordable and the Qualis income streams are sustainable. To demonstrate this, future Qualis Business Plans and any request for new borrowing from the Council should be accompanied by a risk driven scenario analysis that clearly demonstrates repayments remain affordable.
- 9.11. A clear and transparent focus on robust governance and assurance is likely to become even more important in the next few months, and years, given the stress that the local government finance model is under from external events, including the Pandemic, structural economic changes and the exposure of local authority company failures, such as those recently announced in Croydon and Nottingham.

10. Legal and Governance Implications

- 10.1. None contained within this report.

11. Safer, Cleaner and Greener Implications

- 11.1. None.

12. Consultation Undertaken

- 12.1. None

Background Papers