

# **Report to Cabinet**

**Report reference:** C-034-2023/24  
**Date of meeting:** 18 December 2023



**Portfolio:** Finance, Economic Development & Qualis – Cllr J. Philip

**Subject:** Qualis 4 Year Business Plan - 2024 to 2028

**Responsible Officer:** Andrew Small (07548 145665).

**Democratic Services:** Vivienne Messenger (01992 564243)

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## **Recommendations/Decisions Required:**

- (1) **Noting comments from Overview and Scrutiny Committee, to consider and Approve the 4 Year Qualis Business Plan.**

### **1. Executive Summary**

- 1.1. It is a requirement of the Shareholder agreement that each year Qualis produce and present to the Council a one year and a 4-year Business Plan for the Council to consider and sign-off.
- 1.2. The Cabinet was presented with the Qualis single year Business Plan at its meeting on 10 October 2022. The single year plan reflected that longer term planning was especially difficult at that time due to huge economic uncertainty caused by national and international events. Whilst uncertainty continues, the economic position has calmed sufficiently for Qualis to be able to prepare a plan over the longer 4-year timeframe and this is presented here.
- 1.3. This report presents the 4-year Qualis Business Plan and seeks the Council's permission to adopt this as its direction and focus. The single year plan is framed within the 4-year plan.
- 1.4. This report was received and considered by Overview and Scrutiny Committee on 21<sup>st</sup> November 2023, at which the Cabinet Member for Finance, Economic Development & Qualis was present.
- 1.5. As a reminder, Qualis was created by the Epping Forest District Council to solve a number of specific problems including the housing maintenance contract re-let and to progress delivery of Council development priorities, including a number of council owned regeneration sites. The Business Plan highlights the significant progress made in furthering these objectives and sets out future proposals developed jointly between Qualis and the Council drawing on the emerging Place Strategy as a guiding document.

## **2. Introduction**

- 2.1. The ownership structure of Qualis was specifically defined in a way to reserve certain key decision for the Shareholder to make. These include certain matters of Governance, Risk and Strategic Direction.
- 2.2. The detail is set out in the Shareholder Agreement and Governance arrangements agreed by Cabinet in February 2020. This sets out the decision-making framework for Qualis and the ways in which the Council can influence or control Qualis activities in its capacity as Shareholder.
- 2.3. Broadly, the principal control will be through the approval of the annual Business Plan. Qualis presents its proposals each year within the Business Plan and only if the Council agrees this can Qualis implement them. This represents the critical control over the activities of Qualis and appropriate and detailed consideration should be given to the sign-off accordingly.
- 2.4. If Qualis wishes to undertake an activity that was not included within the Business Plan, then under the 'Reserved Matters' part of the Shareholder Agreement it must ask for the Council's permission.
- 2.5. Once the Business Plan is agreed, the Council monitors delivery through the Quarterly Monitoring reports. This provides the opportunity to monitor progress and to receive assurance that performance and the finances of Qualis are as expected.
- 2.6. A commentary on the key elements of the attached Plan is set out below.

## **3. 4 Year Business Plan**

### **Background**

- 3.1. The Business Plan presented by Qualis is a further development in approach and style and reflects the dialogue between the Council and Qualis over the previous 4 years of operation. It also represents a growing maturity of the Qualis Business Model and the relationship with the Council.
- 3.2. The Business Plan focuses both on current activity and references future strategy and approach. Even though Qualis has been able to produce a 4-year Plan, there still remains considerable uncertainty within it due to volatile economic considerations. This ongoing uncertainty heavily influences and limits the ability of Qualis to be specific about future schemes, due to rapidly changing individual scheme viability assessment. The Business Plan sets out how Market Conditions are impacting on its activities in Section 4 of the Plan.
- 3.3. Despite the heightened uncertainty that exists, Qualis remains an important asset of the Council and is a vehicle which remains valuable in helping the Council deliver its strategic, place shaping ambitions which go beyond the operational activities of the Council. A list of the main Achievements is set out in Section 3 and when laid out in a single document it highlights the considerable progress that has been made by Qualis in furthering the Council's objectives over the last 4 years.
- 3.4. Sitting outside of the Council, and therefore partially removed from the financial pressures the Council is facing, (but equally, not immune from them), it provides a mechanism for continued delivery that would inevitably have been impacted and

reduced as part of the Council's extremely challenging Budget setting process for 2024/25, had it formed a direct part of the Budget Framework. Furthermore, it's ongoing activities significantly contribute to reducing the overall size of the budgetary gap currently faced by the Council. The Qualis return on the Council's lending thereby protects the Council's operational services from even deeper budgetary cuts, whilst at the same time significantly contributing to the delivery of the Council's Place Agenda.

- 3.5. The Introduction to the Business Plan produced by Qualis sets out its six key drivers for the Plan period, these being:
- *Enable Qualis to work towards clearing the historic deficit.*
  - *Enable Qualis to generate its own cash that can be used on new projects for the Council.*
  - *Eliminate the need to borrow further funds from EFDC thereby minimising the Council's debt profile.*
  - *Continue to pay interest on EFDC loans providing the Council with over £2m of margin benefit per year.*
  - *Deliver more homes and regenerate the district.*
  - *Improved quality of the council services delivered through Qualis.*
- 3.6. Working with cabinet and officers, the priorities within the Business Plan have been jointly shaped to acknowledge a changing risk profile resulting from the economic conditions that have persisted over the past few years, and which seem likely to continue. The Plan acknowledges this environment, and the six key drivers respond directly to it.
- 3.7. The Business Plan also reflects a maturing profile. The first 4 years were dominated by accumulated expenditure outlaid in association with the Company's creation and also the funding of developments and associated constructions costs. These costs can only be recouped when the developed assets become available for sale.
- 3.8. The next stage of the Plan expects to see Debt peak at just over £100 million, as sale receipts begin to materialise and are then redeployed within Qualis to fund new projects, reducing the need for further borrowing. This is well below the maximum lending facility the Council has made available to Qualis. The move is a reflection of an upwards shift in the cost of debt to the Council and a general shift in the attitude of Government towards Council borrowing and on-lending.
- 3.9. The Council and Qualis remain in regular dialogue and have jointly worked on developing a strategy that takes account of context, ambition and political landscape for mutual benefit. The Business Plan presented here is a demonstration of how strategy can be jointly adapted and aligned and therefore underlines the effectiveness of having a delivery vehicle responsive to the Council's requirements.
- 3.10. Beyond the expected maximum, its peak debt, which occurs at the completion of the Condor development immediately prior to sale, begins to fall as Qualis repays the borrowing back to Council in accordance with the Loan conditions.
- 3.11. As explained in Section 7 of the Plan, costs and deficits have accrued during the first

4 years of operation, as there has been no income / profit being generated from development activities, until now. The deficits have been limited to Qualis Commercial, with all other Qualis companies returning profits. However, with the nature of developments being capital and time intensive, the deficits on development have exceeded the profits on operational activities thus far.

- 3.12. The Quarterly trading position and the cumulative deficits have been reported to Overview and Scrutiny and Cabinet on a regular basis. These accumulated deficits are also expected to peak at the point immediately prior to the point where sales at the Condor development commence, (aligned with peak debt). Beyond this point, profits from the developments are generated and accumulated deficits reduce.
- 3.13. This represents an important milestone in the Qualis journey that should be noted as such. Beyond this point, and with a steady flow of future development projects, the Business Plan projects a continual reduction in the accumulated deficits through the recognition of future profits from current and new development activities. This will supplement the forecast continued profits generated by operational activities. The Business Plan predicts achieving overall profitability on the Balance Sheet by September 2027.
- 3.14. This pattern of short peak in debts and deficits reducing via a long tail is consistent with a start-up development company where losses and debts rise early up to the point the first developments are completed and sales commence.
- 3.15. The activities and intentions of the two main trading arms, Qualis Property Solutions and Qualis Commercial are set out in the Business Plan Section's 6 and 5 respectively.
- 3.16. The objectives of Qualis Property Solutions is focused on consolidation of existing services with objectives around improving the experience, the offer and value.
- 3.17. Qualis Commercial is focused on working with the Council to understand its regenerative and place shaping objectives and to deliver these at no, or limited, net cost to the Council – essentially a continuation of current activities.
- 3.18. The Place Shaping Strategy, currently in development, is expected to be a useful document in informing and identifying the areas of the District that need attention and focus. This will provide a guide and direction to future activities.
- 3.19. Beyond the list of existing projects approved by the Council, no new permissions are sought as part of this document and therefore any future development opportunities jointly identified will be brought to the Council for assessment and permission, where required.

#### **4. Risk Analysis**

- 4.1. Qualis is an important partner and the delivery agent for a variety of core services. The Council has invested substantially in its startup and as funder for the initial developments.
- 4.2. The Business Plan now reaches an important point where new borrowing tails off and the model seeks to become self-sufficient in terms of its financing needs.
- 4.3. Peak borrowing has been reached earlier than originally envisaged and at a significantly lower level. This is the result of dialogue between the Council and Qualis

focusing on the changing risk profile of development in general and the Council's role in bringing this forward.

- 4.4. The Council still recognises its critical role as custodian and Place Shaper for the District and recognises that without its intervention and direction areas may be left behind and the needs of the community may be neglected. However, the Council's ability to influence in this space needs to be tempered against the financial risk and its reduced capacity to absorb financial shocks. The Government has intervened and is now restricting access to borrowed funds, encouraging Council's to be more risk adverse. The Business Plan presented here is a recognition of the shift in risk appetite and clearly responds to it.
- 4.5. At Peak Debt, the Council expects to have lent Qualis marginally in excess of £100 million, against the approved facility of £156 million. Qualis is required to pay nearly £4 million a year in interest to the Council, on which the Council makes a lenders margin of £2 million.
- 4.6. The Margin is a reflection of risk, and a cushion in assessing viability that it is intended to ensure that downside risks can be accommodated and consequently the risk reduced to the Council's lending position.

## **5. Resource Implications**

- 5.1. As has been previously reported, this Plan represents an important milestone for the Qualis Business Model, as it anticipates a point of Financing self-sufficiency early in the 4-year Plan timeline and a gradual reduction in losses moving to overall profitability in September 2027.
- 5.2. This represents a later date for achieving profitability from the first Qualis Business Plan, but significant account needs to be taken of the exceptional market conditions which have existed over most of the first 4 years of Qualis trading.
- 5.3. The large reduction in Peak Debt and the move to profitability is welcomed and its inclusion in the Plan has been achieved through a positive and constructive working relationship between the Council and Qualis.
- 5.4. Qualis continues to play a vital role in the Council's sustainability, its delivery of core services and the Council's strategic ambitions, but perhaps more so due to the £2+ million that it contributes to the Council's Budgets, which allows for the maintenance and provision of the Council's other core services in the face of an unprecedented financial challenge.

## **6. Legal and Governance Implications**

- 6.1. None contained within this report.

## **7. Safer, Cleaner and Greener Implications**

- 7.1. None.

## **8. Consultation Undertaken**

- 8.1. None

**Background Papers**

Group Company Governance Document – Cabinet 6 February 2020