



# Qualis

**Business Plan**

**2024 - 2028**





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# 1. Introduction

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The Qualis Group (“Qualis”) was established in 2020 and is wholly owned by Epping Forest District Council (“EFDC”, “the Council”). Qualis was set up to provide high quality property management, grounds maintenance and development services. Qualis Commercial delivers much needed new homes within the district and manages the Council’s commercial portfolio of properties. Qualis Property Solutions provides high quality repairs and maintenance services to Council homes and communal spaces.

Qualis delivers benefits to both the Council and the wider community by creating additional income (£2m so far), by investing in the district, and by generating more local jobs that strengthen the economy.

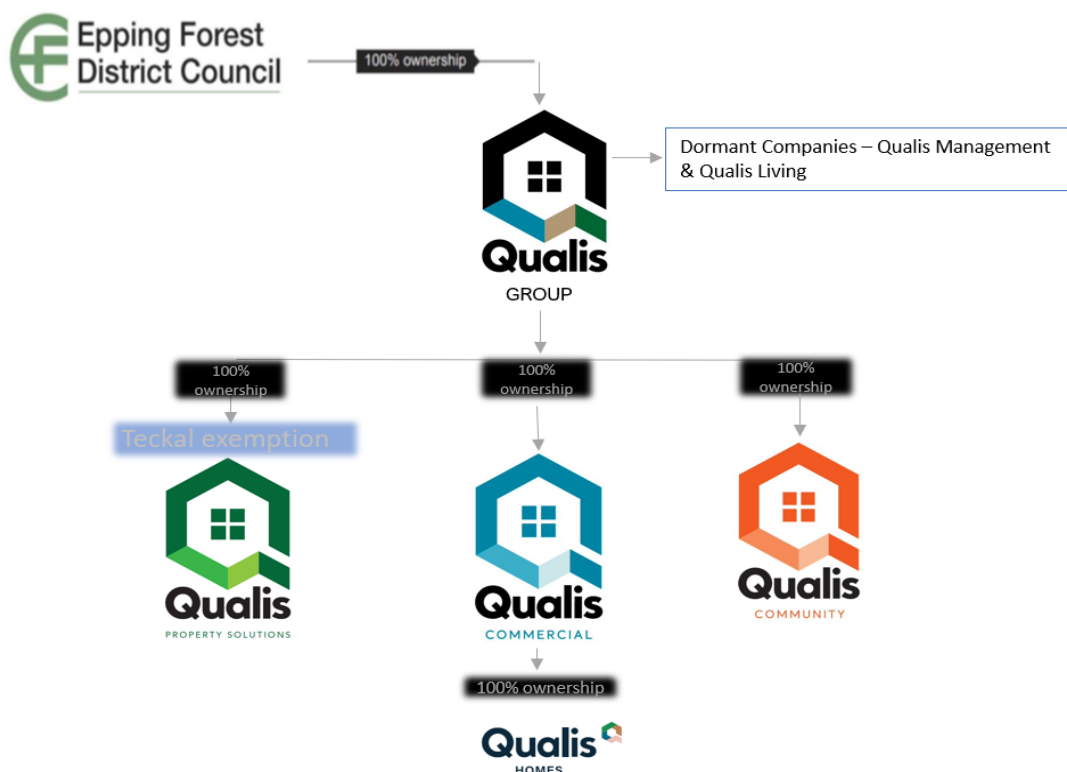
This is the updated four-year Business Plan (“the Plan”) for the Qualis Group covering the period from 1 April 2024 to 31 March 2028. The Plan sets out the details of what Qualis aims to deliver to support the Council’s ambitions during this period. There is a specific section on the market conditions to set context to the economic challenges currently being experienced. These conditions have had an impact on the Plan which is reflected in the financial section.

Despite the challenges that have been overcome in the early years, the plan will:

- *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.*



## 2. Qualis Structure and Governance



**Qualis is made up of the following group of companies:**

**Qualis Group Ltd** is wholly owned by the Council and the parent company of the Group. It has oversight of the overall performance and governance arrangements of the subsidiary companies.

**Qualis Commercial Ltd** works closely in partnership with the Council to develop homes, business premises and to manage its commercial property portfolio.

**Qualis Property Solutions Ltd** provides high quality property solutions to the Council's 6,500 homes.

**Qualis Homes Ltd** is the brand used to sell high quality, sustainable new homes developed by Qualis Commercial.

**Qualis Community Ltd** is the community interest company that will support activities and projects that provide a direct benefit to the community.

The Council maintains control of Qualis through a Shareholders' Agreement. This ensures certain rights are retained by the Council, such as the right to appoint board members.

The Agreement sets out the companies' objectives in the form of business plans approved by the Council. Financial and operational performance and progress against the business plans are monitored by the Shareholder Representative and via quarterly reports to the Council.

The Qualis Group Board has overall responsibility for operational delivery, financial performance, health and safety, risk management and statutory compliance. It delegates the day-to-day operations to the Executive Committee.

The Audit and Risk Committee, Remuneration and Nominations Committee and Health and Safety Committee focus on specific areas to support the Board in meeting its responsibilities.



# 3. Key Achievements

Since the company became operational in 2020 Qualis has:

## Qualis Property Solutions

- **Set up Qualis Property Solutions** and successfully transferred the housing repairs and grounds maintenance services from EFDC.
- **Delivered lower than inflationary** increases on EFDC maintenance activities.
- **Employed over 100 people**, with a further 15 jobs being created over the next 12 months.
- **Become a local employer** with 40% of staff living in the Epping district and 55% living in Essex or nearby neighbouring areas.
- **Created and offered five apprenticeships** to the local community, in administration and craft roles.
- **Supported work placements** for young people in partnership with the New City College, based in Loughton.
- **Supported interview practice** for young people in local secondary schools.
- **Provided additional value** through our community benefit initiatives such as, estate litter pick days and supporting employment events.
- **Strong customer satisfaction** with 93% of our customers happy with the service we provided in 2022/23.
- **New technology** which includes call back and webchat feature in our customer services centre.
- **10% of our fleet are electric vehicles**, with the aim of increasing this to 25% by 2025.

## Qualis Commercial

- Achieved planning approvals to support key redevelopment schemes:
  - **The St John's Road** site, which had been derelict for over ten years, has approval for redevelopment to provide 184 new homes to start in December 2023 following demolition.
  - **Cottis Yard car park** – opened November 2023.
  - **Bakers Lane Leisure Centre** – a key new leisure facility starting on site in December 2023.
  - **Conder/Springwood Grove** – 45 new homes, completions from spring 2024.
  - **Hemnal Street** – 40 new homes.
  - **Cartersfield Road** – an industrial scheme in Waltham Abbey following full demolition on site October 2023
  - **Roundhills** – scheme of 28 homes in Waltham Abbey to start on site 2024.

Qualis schemes to date will provide over £3m in section 106 contributions to EFDC and Essex County Council.

- A planning application on Pyrles Lane to provide 43 new homes in Loughton with planning permission expected before the end of 2023.
- Acquired three investment properties which provide a steady income stream.
- Provided financial benefits back to the Council of c£2m.
- Identified a pipeline of new development opportunities that create a mix of housing, retail, and industrial opportunities.
- Development advice and expertise to support the Council in the delivery of the North Weald Airfield masterplan.



## 4. Market Conditions

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The last few years have been unprecedented in terms of the challenges we have all faced. Since the formation of Qualis in 2020 we have all experienced a series of macro-economic shocks and disruptive challenges to our operations including:

- Brexit and the consequent challenges to the UK supply chain and labour supply
- The Covid-19 Pandemic
- War in Ukraine and its impact on energy prices and further challenges to the UK supply chain

All of these challenges have compounded to produce very steep inflation and rapid rises in interest costs which have impacted on the operating costs, particularly in materials used in our maintenance activities and in the construction costs experienced in our development activities.

Just as we were expecting an easing of these economic challenges, there is now a developing instability in the Middle East which is adversely impacting on markets and the economy.

Despite these challenges, Qualis has worked hard to maintain a sustainable cost base and has:

- Delivered lower than inflationary increases on EFDC maintenance activities.
- Reviewed development appraisals to identify savings through changes to specification, supply chain efficiency, and project resourcing.
- Reassessed the approach to development schemes to provide flexibility, transfer risk, and manage cash flows.
- Reviewed the balance in our development pipeline between industrial and residential to improve resilience during uncertain economic times.
- Ensured that our focus is on delivering schemes that will meet EFDC's corporate objectives.
- Updated scheme assumptions to minimise debt locked into the development programme.



## 5. Qualis Commercial

Qualis Commercial has several key development schemes that have featured in previous business plans, all of which are at different stages of development and approval. This plan continues to include completion of the Epping town centre schemes delivering approximately 269 new homes and a number of other schemes are in early stages of development.

Qualis will continue to work with the Council to identify potential development opportunities within the Council ownership.

A progress summary of each scheme is provided below:

**Cottis Lane** phase 1- Cottis Yard 330 space car park, opened in November 2023.

**Cottis Lane** phase 2 – ancillary cinema, retail and office accommodation – being marketed.

**Bakers Lane Leisure Centre** - to follow Cottis Yard. The construction of this is now being delivered by Places Leisure in partnership with EFDC.

**St John's Road** – this is a complex regeneration site that will deliver 184 new homes in phases. The site has been cleared and the first phase of development will commence in late 2023. Final completion is expected in the 2026/27 financial year.

**Conder Building** – development of 45 homes is well under way with sales expected to commence from spring 2024.

**Hemnal Street** – planning approved for 40 homes but this scheme will only start following completion of the new Leisure Centre at Bakers Lane.

In addition to the Epping town centre sites we have also included the following in the Business Plan:

**Roundhills** - 28 new homes in Waltham Abbey.

**Pyrles Lane** - 43 new homes in Loughton.

**Cartersfield Road** – a commercial development of 4 industrial units in Waltham Abbey.

### Pipeline

Beyond the initial developments in Epping, Waltham Abbey and Loughton, Qualis will look to establish a significant pipeline across the district. New opportunities that are identified will each undertake a full feasibility and financial review.

A high-level review of additional opportunities across the district is ongoing. Each opportunity has been categorised as intensification, in-fill, asset management, development and those of a more strategic nature. This review indicates significant scope for growth, and whilst not yet confirmed, provides confidence for the future.

Until such time as pipeline schemes can be confirmed, provisions for additional schemes have been included in the plan to provide confidence to the Shareholder that Qualis will be in a position to proceed when schemes are agreed and approved.

### Asset Management

The Qualis Asset Management team will continue to manage Qualis owned assets at:

- Birchwood Building, Leatherhead
- Wickes, Maldon
- Greenfields House, Coventry

The team also manages the Council's commercial property portfolio and will manage the Cottis Yard car park.





## 6. Qualis Property Solutions

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Qualis Property Solutions offers a comprehensive service on behalf of the Council. Our ethos is to provide, wherever possible, a service through experienced and established directly employed operatives rather than sub-contracting. This means we can maximise opportunities for local people through the creation of apprenticeships, prioritise employment of local people and carefully control the quality of our service.

Qualis Property Solutions' strategic aims align to the Council's to provide:

- Stronger Communities
- Stronger Place
- Stronger Council

Over the course of the 4-year Business Plan, Qualis Property Solutions will deliver through the six corporate objectives outlined below:

- Enhance the customer experience.
- Increase community investment.
- Continue to develop a great place to work.
- Remain financially strong and grow the business.
- Enhance our partnerships.
- Continue to decarbonise our business.

### **Key outcomes over the next 4 years are to:**

- Co-create with tenants an excellent customer experience, through high quality services which results in achieving upper quartile sector performance.
- Provide value for money to EFDC and our customers.
- Create an excellent work environment with high levels of engagement, highly trained and satisfied staff.
- Development of a community initiatives framework and funding the handyperson and mow and grow services.
- Enhance our existing partnerships such as New City College (Loughton), suppliers and contractors.
- Aspire to 50% of the fleet utilising electrical vehicles by the end of the Business Plan.
- Grow the business and providing additional services property solutions to the Council and to external partners.





# 7. Financial Plan

The original expectation was that within five years of creating Qualis, the Group would be sustainable and returning surpluses from all its companies.

EFDC as Shareholder benefits from the relationship with Qualis as follows:

- Sale of Council assets to Qualis.
- Interest margins on loans provided to Qualis provide a cash benefit of over £2m per year.
- Income generated from external sales will be re-invested to support further regeneration.
- Qualis schemes will provide section 106 contributions to EFDC/ECC - £3m.

Historically, Qualis has operated to a September year-end. Qualis is now planning to fall in line with the Council's financial year and have produced a plan that reflects this. The period covered by this plan includes a six-month budget from October 2023 to March 2024, followed by four years from April 2024 to March 2028.

Qualis has adjusted assumptions to reflect the current economic challenges, but have already absorbed higher costs into the operating model and reduced expected returns from the regeneration activities.

Despite the challenges, Qualis is confident that it will meet its initial objective of returning surpluses and becoming a sustainable business.

The opening position reflects the management accounts results for the year ended 30 September 2023 but may be subject to changes as a result of audit and tax computations as the statutory accounts are finalised.

## Business Plan Streams

The plan has considered the operating functions within the Qualis companies, and they have been included as:

Qualis Property Solutions – which includes all Maintenance and Grounds Maintenance services provided to the Council.

A detailed draft budget has been produced by Qualis Property Solutions in collaboration with the Council. This service plans to make a moderate surplus to act as a buffer to any operational cost experience. It is expected that a small surplus will be available to be used for the Council's community priorities.

Asset Management – management of commercial properties.

Development – the planning and development service which manages schemes from initial appraisal through to completion and sale.

## Development Assumptions:

The Cottis Yard car park opened in November 2023 after which income and costs will be managed by the Qualis Asset Management team.

The plan provides for completion of the initial Epping town centre regeneration schemes and will continue to use funds borrowed from the Council to complete these developments until sales of completed schemes provide a future cash flow to be re-invested in further schemes.

New development scheme proposals will be in support of the Council corporate objectives and will only be taken to planning where there is support for schemes by the Council. A pipeline has been considered that includes residential and commercial schemes in all areas of the district.

In order to produce a reasonable plan, a pipeline of some example schemes has been modelled so that the financial impact of further schemes can be included in the plan. The schemes modelled include a mix of residential, retail and commercial schemes. It should be emphasised that this exercise has produced a model set of cash flows to be included in the plan to demonstrate that the capacity is available as and when specific schemes are approved.

The overriding assumption is that as schemes complete, the cash returned from sales will be available for further investment with surpluses being used to continue to fund the finance costs of the Council loans.

This cycle of investment is essential to the success of the plan and to the sustainability of Qualis.

## Financial Highlights

The current and pipeline schemes will generate annual surpluses so that Qualis will move to being in surplus. This is important as the challenges in the early years have resulted in a historic deficit which needs to be resolved. The Qualis surplus graph on the following page demonstrates how annual surpluses will eradicate the historic deficit over the life of the plan.

As the current schemes complete, sales receipts will provide the cash flow required for re-investment in pipeline schemes, reducing the need to borrow funds from the Council.

The Council borrowing is expected to peak during the 2024/25 financial year and then reduce in line with agreed loan repayment profiles.

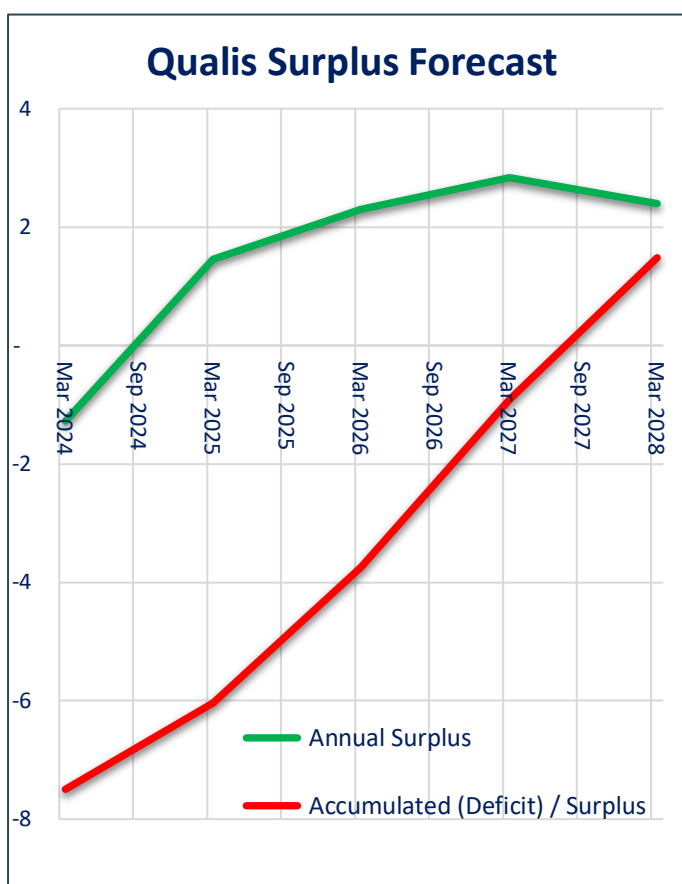


## Financial Plan

### Group Income and Expenditure

Summary Group I&E	6 months	Y/E	Y/E	Y/E	Y/E
	To Mar-24	Mar-25	Mar-26	Mar-27	Mar-28
		Yr1	Yr2	Yr3	Yr4
	£000	£000	£000	£000	£000
Surplus on Sale	0	3,471	4,423	4,218	3,417
Development Overhead	(356)	(581)	(552)	(574)	(596)
QPS surplus	127	128	135	142	149
Asset Management surplus	901	2,215	2,283	3,032	2,998
<b>Surplus before interest</b>	<b>672</b>	<b>5,233</b>	<b>6,289</b>	<b>6,818</b>	<b>5,969</b>
Interest paid to EFDC	(1,949)	(3,778)	(3,994)	(3,983)	(3,576)
<b>Net Surplus / (Deficit) Before Tax</b>	<b>(1,277)</b>	<b>1,455</b>	<b>2,295</b>	<b>2,835</b>	<b>2,394</b>

- ✓ From year ending March 2025 sales surpluses from current schemes bring the Group into annual surplus
- ✓ Cash generated will be reinvested to continue to produce surplus.
- ✓ A development pipeline is essential to continue the positive performance and reduce the historic Balance Sheet deficit position.
- ✓ The graph illustrates the positive impact of reinvestment in further pipeline schemes.
- ✓ Pipeline schemes will return further surpluses to reduce historic deficits.

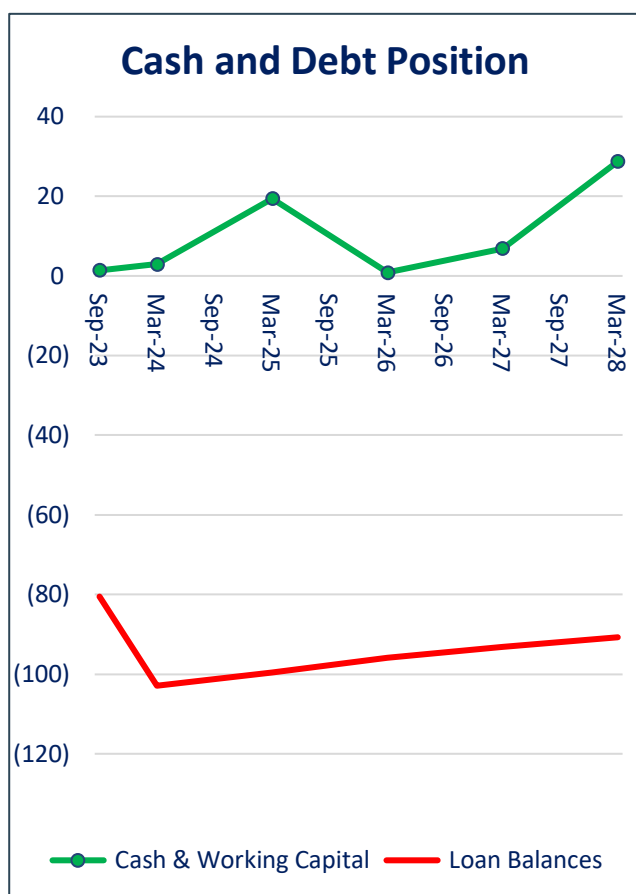




## Financial Plan

### Group Balance Sheet

Summary Group Balance Sheet	6 months	Y/E	Y/E	Y/E	Y/E
	To Mar-24	Mar-25	Mar-26	Mar-27	Mar-28
		Yr1	Yr2	Yr3	Yr4
	£000	£000	£000	£000	£000
Fixed Assets	48,558	48,558	48,558	48,558	49,658
Work in Progress	44,603	26,165	40,137	36,740	13,874
<b>Assets</b>	<b>93,161</b>	<b>74,723</b>	<b>88,695</b>	<b>85,298</b>	<b>63,532</b>
Cash & Working Capital	2,931	19,429	3,509	6,931	28,730
EFDC Loan Balances	(102,907)	(99,513)	(95,952)	(93,141)	(90,781)
Provisions	(681)	(681)	0	0	0
<b>Net Assets</b>	<b>(7,496)</b>	<b>(6,041)</b>	<b>(3,747)</b>	<b>(912)</b>	<b>1,481</b>



- ✓ During 2024/2025 cash receipts become available for re-investment in current and new pipeline schemes.
- ✓ As Work in Progress is developed and sold, the WIP balance decreases with a corresponding increase in cash balances.
- ✓ Qualis will use this recycled cash instead of the Council's debt to invest in pipeline schemes and generate surpluses.
- ✓ The Council borrowing is expected to peak during the 2024/25 financial year and then reduce in line with loan repayment profiles.



### Cash Flow Statement

Cash Flow Statement	6 months	Y/E	Y/E	Y/E	Y/E
	To Mar-24	Mar-25	Mar-26	Mar-27	Mar-28
		Yr1	Yr2	Yr3	Yr4
	£000	£000	£000	£000	£000
Operating Surplus	672	5,233	6,288	6,818	5,969
less Sales	0	(3,471)	(4,423)	(4,218)	(3,417)
<b>Net Operating Income</b>	<b>672</b>	<b>1,762</b>	<b>1,865</b>	<b>2,600</b>	<b>2,552</b>
Development Net Cash Flow	(19,567)	21,908	(12,174)	10,241	25,183
Loans Repaid to EFDC	(1,614)	(3,394)	(3,561)	(2,811)	(2,361)
Interest Costs to EFDC	(1,949)	(3,778)	(3,994)	(3,983)	(3,576)
<b>Net Cash Flow</b>	<b>(22,458)</b>	<b>16,498</b>	<b>(17,863)</b>	<b>6,047</b>	<b>21,799</b>

#### To summarise, the Qualis Four Year Plan will:

- ✓ Enable Qualis to work towards clearing the historic deficit.
- ✓ Eliminate the need to borrow from the Council during year ended March 2025 and onwards.
- ✓ Provide positive cashflows in year ended March 2025 to be used for re-investment in new projects for the Council.
- ✓ Deliver more homes and regenerate the district.
- ✓ Provide the Council with over £2m of margin benefit per year on loan interest payments.

#### The Plan will succeed because:

- ✓ Current schemes only require further borrowing from the Council until early 2024/25.
- ✓ A development pipeline has been modelled to follow on from the current portfolio.
- ✓ All pipeline schemes are funded from re-investing sales receipts.
- ✓ Pipeline schemes will be agreed with the Council and meet Council objectives.



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