



QUALIS GROUP BUSINESS PLAN

2020-2021



This is the start of the first full year of Qualis Group's operation since it was established in February 2020. In accordance with the Shareholder Agreement, Qualis Group is required to produce a business plan setting out the company's priorities and objectives. The financial year for Qualis Group runs from 1st November to 31st October each year. This one-year business plan is for the 2020-2021 year with financial projections over a five year period.

Contents

01	Introduction	3
02	Purpose of Qualis Group	4
03	Governance	5
04	Finance	6
05	Qualis Living	14
06	Qualis Commercial	16
07	Qualis Management	18
08	Qualis Community	19
09	Risk Management Framework	20

1. Introduction

The main government grant funding to local authorities ceased from 2018/19 and councils are required to become more self-sufficient in order to offset the government grant reduction. Capital programmes have become focussed on generating longer-term revenue returns to councils.

The Group will operate with flexibility and commercial focus in order to generate additional income to support key services and underpin the long term financial strength of the Council. This plan sets out the programme of activities that will make Qualis a sustainable and profitable business to the benefit of the Council and the community.

This business plan sets out the objectives for Qualis Group and subsidiaries for the first full year of operation. During the first year the new Board and Executive Team will develop its four-year business plan for 2021 – 2025.

The creation of Qualis Group is key to the Council putting itself in a position where it has the right legal entity, governance, capability and capacity to undertake development and delivery of services at the scale and ambition set by the Council.

The Group has been set up as companies limited by shares and are as follows:



Qualis Group – is the parent company that has responsibility for the overall performance and governance of the subsidiary companies.



Qualis Living – will own and manage assets for long term rental. Qualis Commercial will be commissioned to undertake developments.



Qualis Commercial – will build the schemes either on Council owned land purchased by Qualis or land acquired on the open market. Developments will include a range of housing, commercial and leisure.



Qualis Management – will deliver facilities management services.



Qualis Community – will be set up as a community interest company and will undertake activities that provide a benefit to the community. It will work with other established community interest groups.

2. Purpose of Qualis Group

- To bring forward the development of key sites to deliver new homes and public amenities within the District.
- To act commercially to maximise profits within Qualis and deliver sustainable returns to the Council as Shareholder.
- To deliver long-term value across all Group activities and positively impact communities, the environment and economy.
- To build a highly effective team and create a corporate culture that empowers and energises people.



Qualis Group is wholly owned by Epping Forest District Council.



3. Governance

A governance framework has been put in place to enable the Group to effectively organise its operational, financial, risk management and reporting processes. This means the Board will receive the information it requires to effect good governance allowing the companies to conduct activities in ways that comply with regulations and other obligations.

The parent company Qualis Group sits between the Council and the four subsidiary companies; Qualis Living, Qualis Commercial, Qualis Management and Qualis Community. Each company is wholly owned by the Council.

The Directors are responsible for governance and oversight of company activities. The Council has recently interviewed and appointed all permanent members of the Qualis Group Board.

Qualis Group has entered into a Shareholder Agreement with the Council. The primary purpose of this agreement is to set out reserved matters that the Directors of the company cannot undertake without the consent of the Council. This includes approval of the one and four year Business Plan.

The Council has identified the Section 151 Officer to monitor compliance and administration on behalf of the Council.

Quarterly financial and operational performance reports will be shared with Cabinet and Full Council.

Qualis Group Board

The Board is made up of nine members including; three Independent Non-Executive Directors, Chief Executive of the Council, Group Managing Director, Group Operations Director, Group Finance Director and two elected Council Members.

Qualis board meetings for all companies are held on a regular frequency and are supported by the following committees:

Risk and Investment Committee – reviews and appraises all development schemes and investment opportunities. The Committee is chaired by one of the elected Council Members on the Board.

Finance and Audit Committee – provides oversight and monitoring of finance, audit and compliance, including health and safety. This is chaired by one of the independent Non-Executive Directors with accountancy expertise.

Appointments and Remuneration Committee – appoints and removes Directors, agrees remuneration and assigns responsibilities for senior roles.

The Board and all committees will have responsibility for risk governance and risk management.

Qualis Leadership Team

- Group Managing Director.
- Group Operations Director.
- Group Finance Director.
- Company Secretary.
- Group Health and Safety Director.
- Managing Directors of each subsidiary business.

4. Finance

4.1 Loans and Funding

The Council and Qualis Group have agreed a financial model to support the launch and the development of schemes, property investment, and delivery of services in accordance with the agreed objectives.

A major investment by Qualis over the next five years is the development of five sites in Epping and one in Waltham Abbey with a combined land purchase cost of £19m and an anticipated total development cost of £66m. These developments are treated as work in progress and do not feature in the income and expenditure statements at Section 3.2 but are shown in summary at 3.3.

The following initial loan agreements appeared in the Council's Budget for 2020/21 and the first three were formally agreed in October 2020.

The value of the loan will reflect any final valuation, ownership and development approaches agreed between the parties.

Loan	Value £m	Duration	Basis of Loan
Working Capital	6	5 years to Oct 2025	Single currency revolving facility agreement
Asset Purchases from the Council	19	30 years to Oct 2050	Single currency, term facility agreement, interest and principle repayment
Asset Purchases from Market	30	10 years to Oct 2030	Single currency, term facility agreement, maturity repayment

The following loan agreement is due to be struck between the Council and Qualis in 2020 noting that the value is subject to final review:

Loan	Value £m	Duration	Basis of Loan
Development	66	30 years to Dec 2050	Single currency, term facility agreement, interest and principle repayment

4. Finance

The Council will provide the loan facilities to Qualis Group at state aid compliant rate. This will provide Qualis Group with the ability to manage the cash flow between the subsidiary companies.

Loan repayment and interest will be returned to the Council, as a result of income made on development sales, rentals and service provision, with distributions from profit shared between the Council and Qualis Group as agreed through the business plan.

In line with the agreed outputs of the Council's medium term financial strategy a return to the Council will be made by means; of the margins made on loans, future dividend payments and the provision of services.

Qualis Group is also expected to seek further loans from the Council for future asset purchases and developments.

If the Council is unable to provide a suitable loan facility Qualis Group can explore funding options with other providers or consider joint ventures. The financial plans have assumed that a further £60m asset purchase loan is secured from either the Council or the market.

4.2 Income and Expenditure Statements

The current financial plans for each of the companies in the Qualis Group for the next five-years is shown below. The figures include inter-company trading, loan repayments, operational costs and income.

It should be noted that for Qualis Commercial only central costs are shown. Land acquisition, professional fees and construction costs are shown as work in progress, then as completed assets in the balance sheet.

Qualis Group	2020/21 £	2021/22 £	2022/23 £**	2023/24 £**	20204/25 £**
External Income					
Group Recharges	2,129,194	2,188,825	2,190,156	2,191,520	2,192,918
Total Income	2,129,194	2,188,825	2,190,156	2,191,520	2,192,918
Operating Expenditure	2,067,178	2,125,073	2,126,365	2,127,689	2,129,047
Group Recharges					
Development Costs					
Total Expenditure	2,067,178	2,125,073	2,126,365	2,127,689	2,129,047
Interest Charges	-	-	-	-	-
Profit/-Loss before Tax	62,015	63,752	63,791	63,831	63,871
Qualis Living	2020/21 £	2021/22 £	2022/23 £**	2023/24 £**	20204/25 £**
External Income					
Group Recharges	2,660,000	4,550,000	6,125,000	6,300,000	6,300,000
Total Income	2,660,000	4,550,000	6,125,000	6,300,000	6,300,000
Operating Expenditure	94,381	173,585	201,085	203,585	203,585
Group Recharges	532,298	547,206	547,539	547,880	548,230
Development Costs					
Total Expenditure	626,679	720,791	748,624	751,465	751,814
Interest Charges	3,952,418	4,929,000	5,754,000	5,829,000	5,830,582
Interest Charges Transferred to WIP	- 1,927,418	- 1,929,000	- 1,929,000	- 1,929,000	- 1,930,582
Profit/-Loss before Tax	8,321	829,209	1,551,376	1,648,535	1,648,186

4. Finance

Qualis Commercial	2020/21 £	2021/22 £	2022/23 £**	2023/24 £**	20204/25 £**
External Income					
Charge to WIP	1,547,803	1,301,141	1,301,826	1,302,529	1,303,249
Total Income	1,547,803	1,301,141	1,301,826	1,302,529	1,303,249
Operating Expenditure					
Group Recharges	1,064,597	1,094,413	1,095,078	1,095,760	1,096,459
Development Costs					
Total Expenditure	1,502,721	1,263,244	1,263,909	1,264,591	1,265,290
Interest Charges	-	-	-	-	-
Profit/-Loss before Tax	45,082	37,897	37,917	37,938	37,959
Qualis Management					
	2020/21 £	2021/22 £	2022/23 £**	2023/24 £**	20204/25 £**
External Income					
Group Recharges	6,357,341	8,309,357	9,519,967	9,686,477	9,686,477
Total Income	6,357,341	8,309,357	9,519,967	9,686,477	9,686,477
Operating Expenditure					
Group Recharges	5,702,421	7,238,770	8,242,939	8,378,953	8,378,953
Group Recharges	532,298	547,206	547,539	547,880	548,230
Development Costs					
Total Expenditure	6,234,720	7,785,977	8,790,478	8,926,833	8,927,182
Interest Charges	-	-	-	-	-
Profit/-Loss before Tax	122,621	523,380	729,489	759,644	759,295
Total Group Profit/-Loss before Tax	238,039	1,454,238	2,382,573	2,509,948	2,509,311

** when projects complete additional income sources will be shown together with cost currently incurred in WIP (ie loan interest)

4.3 Qualis Living Balance Sheet

Qualis Living will own and manage the portfolio. Qualis Commercial will provide development management services to Qualis Living.

The balance sheet shows the growth of a property investment portfolio over three years totaling £90m and the completion of five projects in Epping and one in Waltham Abbey totaling £85m (£19m land and £66m development costs).

The simple balance sheet shows the creation of a property portfolio over five years and the completion of the Epping and Waltham Abbey projects in total by the sixth year, whereupon they transfer to completed assets and are revalued at 15%.

The financial plan assumes an average gross rental return of 6% is earned on bought and developed assets less appropriate fees, costs and Qualis Group recharges.

The figure in the balance sheet reflects the gross value of intended developments. It should be noted that these figures may be altered in the future to reflect agreements reached with EFDC around the ownership and operation of the planned Leisure Centre and Car Park in Epping.

The summary balance sheet for Qualis Living is shown below

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2025/26 Revalue £m
Fixed Assets	30	60	90	90	90	220	253
WIP Land	19	19	19	19	19	0	0
WIP Build	6	34	148	152	156	0	0
WIP Sale	0	0	-45	-45	-45	0	0
Cash / Investments	0	0	39	34	29	29	29
Debtors	0	0	0	0	0	0	0
Creditors	-1	-2	0	0	0	0	0
Loans	-55	-113	-257	-261	-265	-265	-265
Loans Repaid	1	3	8	14	20	20	20
Total	0	1	2	3	4	4	37
Profit and Loss Reserve	0	1	2	3	4	4	4
Revaluation Reserve	0	0	0	0	0	0	33
Total	0	1	2	3	4	4	37

4. Finance

4.4 Other Financial Priorities

The following list of operational financial priorities are planned:

Objective	Aim	Target Date
Finance and Payroll System	Develop SAGE system	October 2022 in line with next stage of Qualis Living and Qualis Commercial activities
Expenses System	Web set-up and use	December 2020
Banking	Tender requirements	April 2021
Funding Sources	Identify alternative funding and partner sources for Phase 2 activities	April 2021
Final Accounts completion (November – October financial year)	Draft and Audited	End of November (draft), end of January (reviewed and submitted)
Risk Management	Launch process with monthly review	January 2021 and subsequently monthly

4.5 Financial Assumptions

The Business Plan financial estimates have been put together on the following basis:

Item	Actual Position / Assumption	Risk and Contingency
General approach	<p>As per appropriate IFRS standards and HMRC guidelines for a commercial company</p> <ul style="list-style-type: none"> Income and expenditure accounts prepared as per normal commercial practice, on an "Earnings Before Interest Taxation Dividend and Amortization" basis. No reporting deviations or approved tax schemes. 	<ul style="list-style-type: none"> Limited risk as standard approach. Appropriate notes to accounts and review of accounts by an external auditor.
Revenue costs staff, all companies	<p>Budgeted numbers of staff based on need and function</p> <ul style="list-style-type: none"> For seconded staff from the Council, cost plus 29% on cost plus 3% Council charge. For Qualis employed staff, cost plus 12% on cost. Phased in twelfths. 	<ul style="list-style-type: none"> Two Qualis Commercial posts filled currently by budgeted more expensive, interims. Recruitment underway. Qualis Living, two posts currently not recruited to but budgeted for pending agreement as approach to rental management. Directly appointed staff, are less costly due to reduced overhead. Limited and controllable costs provided no significant new expense incurred. Sized for growth of services, assets and development projects.

Item	Actual Position / Assumption	Risk and Contingency
Inflation staff	2.5% per annum as per Treasury norm	<ul style="list-style-type: none"> Mixture of the Council and market costs will enable inflation assumption to be met.
Revenue costs non-staff, all companies	Budgeted at reviewed levels confirmed with service managers <ul style="list-style-type: none"> Phased in twelves. 	<ul style="list-style-type: none"> Limited and controllable costs provided no significant new expense incurred. Sized for growth of services, assets and development projects.
Inflation non-staff	2.5% per annum as per Treasury norm	<ul style="list-style-type: none"> Mixture of the Council and market costs will enable inflation assumption to be met.
Contingency Reserve, Qualis Group	Set at 10% during formative stage (down on 15% in 2019/20)	<ul style="list-style-type: none"> General flexibility for unexpected and additional staff and non-staff costs.
Loans	Initially sought from the Council in line with Shareholder Agreement at competitive market rate	<ul style="list-style-type: none"> Standard approach, limited risks.
Loan recognition,	Recognised when loan is agreed and accrued, (not later when interest and principle start to be payable)	<ul style="list-style-type: none"> Standard approach, limited risks.
Loans, interest rates	Actual and assumed <ul style="list-style-type: none"> For asset purchase and working capital loans agreed and signed, the loan rate stipulated (4%). For future asset purchases from market a rate of 3% has been used (as loan need is imminent). Construction loan drawn down over five years assumes an interest rate of 2% (as costs of money over the next two years' fall facilitated by quantitate easing). 	<ul style="list-style-type: none"> Standard approach, limited risks.
Assets Buildings	Default is 40-year life <ul style="list-style-type: none"> Unless a specific valuation indicates. Revaluation would occur every third-year, or earlier if a significant local or national event has occurred. 	<ul style="list-style-type: none"> Standard approach, limited risks.
Work in Progress	Whist projects are live treated as WIP including rolled up financing costs (as is common practice) <ul style="list-style-type: none"> Revaluation on completion. 	<ul style="list-style-type: none"> Standard approach, limited risks.

4. Finance

Item	Actual Position / Assumption	Risk and Contingency
Asset revaluations	Land and buildings and fixed equipment indexed for two years and revalued every third year (see above)	<ul style="list-style-type: none"> • Standard approach, limited risks.
Balance Sheet Creditors	Assume: Qualis takes 28 days of credit before settlement	<ul style="list-style-type: none"> • Standard approach, limited risks.
Balance Sheet Debtors	Assume: Qualis will give 28 days of credit before settlement	<ul style="list-style-type: none"> • Standard approach, limited risks.
Balance Sheet Loans	Recognised as short and long-term liabilities in line with standard practice and specific loan agreements, (including amortization)	<ul style="list-style-type: none"> • Standard approach, limited risks.
Banking	Natwest Bank, normal multiple account facilities provided, electronic banking and limited use commercial credit cards	<ul style="list-style-type: none"> • Normal banking controls and security arrangements in place.
Treasury	Initially investments only through Natwest saving products until a full treasury strategy produced and agreed	<ul style="list-style-type: none"> • Prudent approach, limited risk (and returns).
Audit	Nordens appointed, KPMG available for detailed work	<ul style="list-style-type: none"> • Limited risk, tried and tested local and national companies.
Tax, corporation tax, capital allowances, national insurance	Registered, electronic submissions, supplementary detail provided	<ul style="list-style-type: none"> • Standard approach, limited risks, full detail made available to HMRC.
Tax, VAT	Registered, electronic submissions, supplementary detail provided	<ul style="list-style-type: none"> • Standard approach, limited risks, full detail made available to HMRC.

5. Qualis Living

Qualis Living has been set up to hold and manage assets for the long term. Qualis will take a low risk approach to property investment.

It will aim to build a £90m diverse property investment portfolio across a mix of locations and asset classes with no development or occupational risk, no immediate capital investment requirement, targeting assets with immediate and secure income for 10+ years from good covenants and a net initial yield of 6%.

All investment proposals are properly assessed by the Risk and Investment Committee before being recommended to the Group Board.

The aim is for Qualis Living to self-deliver property and asset management services across the portfolio. Until these management services are set up and fully operational, the Company will engage third parties to provide support where required. In future self-delivery will reduce operational expenditure and increase net returns .

The recently completed acquisitions are set out below:

			Commercial Investment Portfolio	
Location	Type	Size	NIY (%)	Gross Income
Birchwood Building, Leatherhead	Office	34,939 sq ft / 3,246 sq m	6.28	£916,389.75
Wickes, Maldon	Non-Food retail	28,199 sq ft / 2,620 sq m	7.26	£457,000
				Total: £1,373,389.75

After the deduction of the cost of finance this produces a net income of £604,589 per annum to Qualis.

5. Qualis Living

Birchwood Building, Leatherhead

The Birchwood Building comprises a newly refurbished multi-let office building of 34,939 sq ft (3,246 sq m) together with 154 car parking spaces and is located within The Leatherhead Park situated on Springfield Drive, to the north east of the park adjacent to the international headquarters of Unilever and the national headquarters of CGI.

The building has been comprehensively refurbished to provide modern, high-specification, trendy headquarters-style office space with the works completed in March 2020. The property is Fully-Let to 2 multi-national tenants in Zoetis UK and Hyundai Motor UK on FRI leases producing a total current income of £916,389.75 per annum.

zoetis

Zoetis UK is the development, manufacture, marketing and sales of animal health medicines and vaccines, with a focus on livestock and companion animals. Its parent company Zoetis Inc is listed on the NYSE and is the global leader in the sector with over 300 product lines and a presence in 120+ countries. Zoetis UK Limited is rated 99/100 and "Very Low Risk" by Experian.



Hyundai UK is a wholly owned subsidiary of Hyundai Motor Company with its principal activities including the importation and sale of Hyundai cars and associated parts to consumers in the UK and Norway. Hyundai is a Korean company that now sells cars to customers in more than 190 countries and employs over 75,000 staff. Hyundai is the fastest growing car manufacturer in the world due to its focus on technologically-advanced, high quality vehicles. Hyundai Motor UK Limited is rated 100/100 and "Very Low Risk" by Experian.

Wickes, Maldon

The property is a purpose build stand-alone retail warehouse comprising of approximately 28,199 sq ft (2,620 sq m) of accommodation at ground floor level. The site extends to 3.13 acres with the store occupying 0.7 acres. In addition, there are 149 car parking spaces to the front of the building.

The building is located in Maldon, East Essex at the head of the Blackwater & Crouch Estuaries, 27 miles east of Epping and 50 miles north east of Central London and is let to Wickes Building Supplies Limited.



Wickes was established in 1972 and has grown into one of the UK's leading DIY retailers. The company is a wholly owned subsidiary of Travis Perkins PLC, having been purchased in February 2005 trading from circa 230 stores across the UK. Wickes Building Supplies Limited have reported the following last three year's results and have a Creditsafe rating of 97/100 indicating a 'Very Low Risk' by Experian.



6. Qualis Commercial

Qualis Commercial has several key development schemes that form the priorities for year one of operation and are listed in the table below. The schemes are at different stages of development and approval.

The schemes will move through a series of 'gateways' which will require approval through the Risk and Investment Committee and Qualis Group Board. A detailed business case for each site will be submitted to the Board for approval. Timelines are indicative and subject to planning, procurement and finalising details with the Council.

Approved development schemes for 2020/2021

Scheme	Current gateway	Business Case Submission
Bakers Lane Car Park		
Development of new Leisure facilities including 6 x 25m pool, teaching pool, 4 hall sports centre and 2 squash courts	Pre planning stage first stage of public consultation complete. 2nd Consultation 1st week November and target planning application deadline December 2020	December Qualis Group Board
Cottis Lane Car Park		
330 space multi-storey car park, office, hotel and retail/leisure accommodation	Pre planning stage first stage of public consultation complete. 2nd Consultation 1st week November and target planning application deadline December 2020	December Qualis Group Board
Conder Site		
Residential development of 50 dwellings in a mix of family houses and apartments.	Pre planning stage first stage of public consultation complete. 2nd Consultation 1st week November EIA to be completed planning application target late January 2020	Full Business Case submission to Qualis Board Jan 2021
St Johns Site		
180 highly specified residential apartments to be operated on a build to rent model.	Pre planning stage first stage of public consultation complete. EIA to be completed planning application target late January 2020	Full Business Case submission to Qualis Board Jan 2021
Hemnal Street		
Residential development totaling 41 dwellings in a mix of family homes and apartments.	Pre planning stage first stage of public consultation complete. EIA to be completed planning application target late January 2020	Full Business Case submission to Qualis Board Jan 2021
Roundhills		
Residential development of 40 dwellings in a mix of family homes and apartments	Pre-planning Application process to commence November 2020	Full Business Case submission target March 2021



The Conder Building - A new community wrapped around a protected pond.



Bakers Lane Car Park - A new leisure centre including squash courts and sports hall

7. Qualis Management

Qualis Management was established to provide facilities management services. It will initially focus on the Council's housing repairs and maintenance service.

The company will operate commercially and deliver services at competitive rates with a focus on quality and customer experience and by using the right technology and smart sourcing solutions, significantly increase productivity.

During 2021 and 2022, the company will consider the transfer of additional services from the Council ensuring continuity and mitigating risk. Relationships with specialist contractors will continue until such a time when Qualis is able to self-deliver.

In future Qualis Management will provide services to Group companies including Qualis Living and Qualis Commercial and extend the offer to the private sector to increase income and profitability.

The business is committed to finding environmentally responsible ways to work, which includes investment in electric vehicles. It also aims to create social value through employment opportunities including apprenticeships, training programmes and placements for local people.

Priority	Target Date
Delivery of responsive repairs service including a customer online portal	October 2021
To bring voids service in-house to deliver 80% of work that is currently outsourced	July 2021
Development of the contractor portal to improve efficiency and productivity	March 2021
Preparation and mobilisation for kitchen and bathroom programme	April 2021

Additional Services

During 2020/2021, the Council will consider whether any further services may be transferred into Qualis Management.

Qualis Management are also able to seek opportunities to deliver services to the private sector up to 20% of total turnover. One of the objectives for 2020/2021 will be to explore new possibilities.

8. Qualis Community

The set up of Qualis Community has been approved and will be established in line with the following principles:

- To improve the economic, social and general wellbeing of the public through a sustainable approach to providing public infrastructure and services.
- To operate in the Epping Forest District Council area, adjacent authorities and broader East of England initiatives (with partners).
- For each defined project to set up a representative steering group that will make recommendations from the Qualis Community Interest Board to the Qualis Group Board.

The priority for 2020/2021 is to complete the registration and set up of the Community Interest Company.

Some of the Epping Town Centre sites and other potential developments across the district may have areas of public realm or community assets that would benefit from being operated through the Qualis Community Interest Company.

Some examples of the types of projects that could be delivered through Qualis Community include:

- Support local enterprise and community projects.
- A tree planting programme to achieve sustainability and environmental improvements.
- Volunteering, training, and apprenticeship opportunities.



9. Risk Management Framework

Qualis Group has developed a risk mitigation strategy which identifies the following key internal and external risks.

External

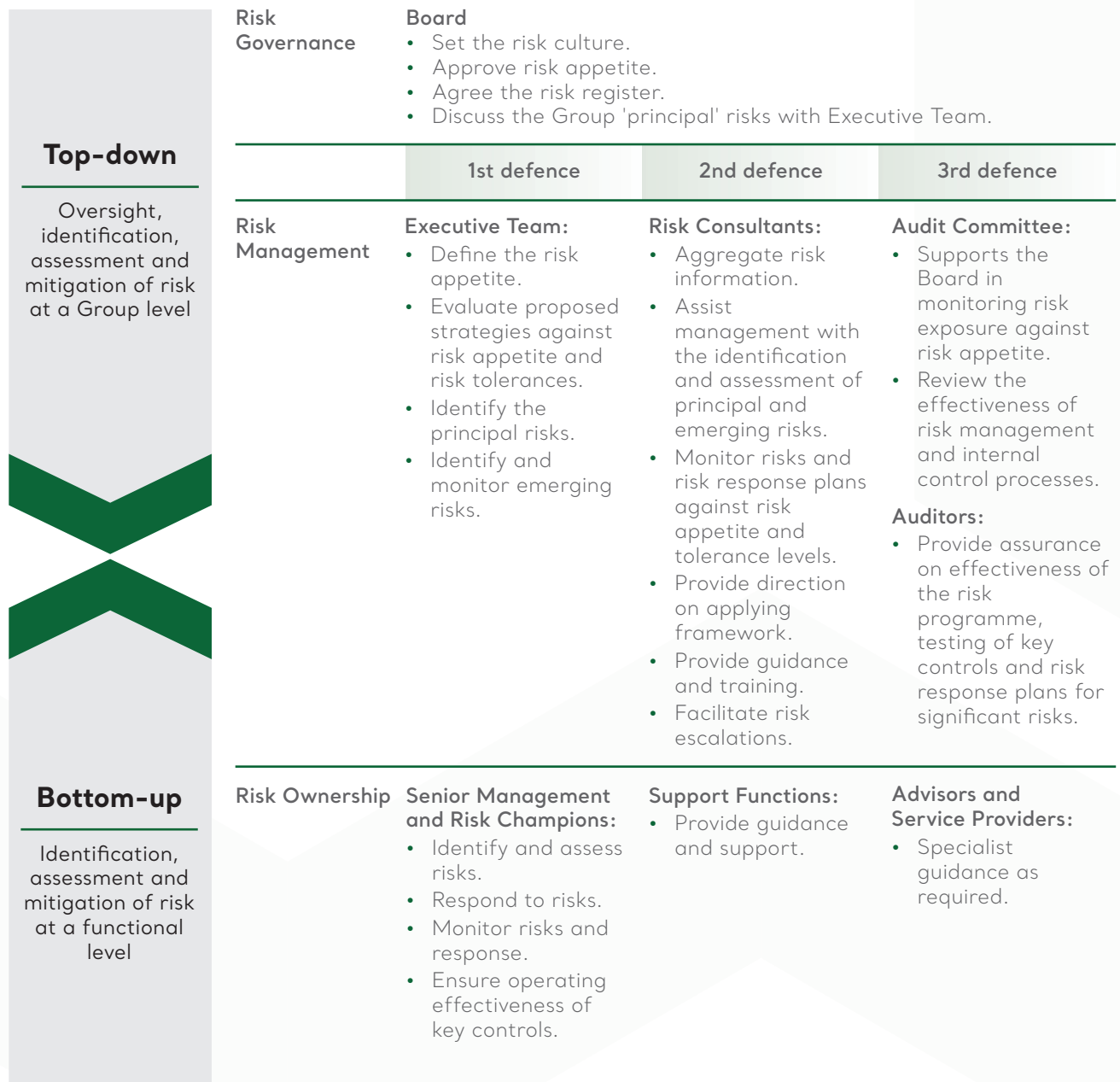
- Economic.
- Political and regulatory.
- Investment market.
- Occupier markets.
- Availability and cost of finance.
- Catastrophic business event.

Internal

- Finance strategy.
- Investment strategy.
- Development strategy.
- Operational strategy.
- People and culture.
- Information technology and systems.
- Governance.
- Supply chain management.

A detailed risk register is being developed for Group and subsidiary companies that will be presented to the Board in December 2020 for approval. This document will be reviewed periodically.

The risk framework below shows our high level approach to risk management across the Group.





If you would like this information in another format or language please contact:

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