



## SHAREHOLDER BOARD

Thursday, 28 October 2021

<b>REPORT TITLE:</b>	<b>EDSENTIAL REQUEST FOR FUNDING</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF RESOURCES (S151 OFFICER)</b>

### REPORT SUMMARY

Edsential Community Interest Company, a company wholly owned equally by the Council and Cheshire West and Chester (CWaC) Council, has experienced significant trading and financial difficulties primarily as a consequence of the COVID 19 Pandemic. The company has been in negotiation with officers of both the Council and CWaC Council with a view to obtaining additional financial support.

The proposals within this report affect all Wards.

### RECOMMENDATION/S

That Shareholder Board is requested to recommend that the Policy and Resources Committee

- (a) authorise the Director of Resources in consultation with the Director of Law and Governance to approve financial support to be provided to the company over the forthcoming financial year, in the form of Covid related funding support grant of £643,000 and an interest bearing loan of £857,000 as set out in the detail and in appendix 1 of this report.
- (b) authorise the Director of Resources in consultation with the Director of Law and Governance to provide a letter of comfort to Edsential confirming the agreed financing and support.

## SUPPORTING INFORMATION

### 1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 Edsential has an existing working capital facility to manage its normal operational cashflow arrangements, allowing the company to function effectively. It has encountered financial difficulties arising from the Covid-19 pandemic. The company has utilised available government support measures such as the Coronavirus Job Retention Scheme (Furlough), Revenue Support Grants and Deferral of VAT scheme but requires additional support.
- 1.2 The core underlying business, prior to Covid-19, has proven to be profitable, however the impact of the pandemic has had a material effect on operations. The company has provided revised business plans with detailed financial projections. After considering the company's resources, the long-term consequences of any short term support provided and the assessment of need following recent periods of lockdown and the transition to the re-opening of Edsential's activities, it is considered in the Council's interest as a shareholder, together with CWAC Council, to provide the recommended financial support.
- 1.3 The Policy and Resources Committee agreed on March 24th 2021 to accept the recommendation:

*That the Director of Law and Governance be authorised, in consultation with the Director of Resources, to:*

  - (a) *provide a letter of comfort to Edsential to set out assurances that financial support will be provided to the company over the forthcoming financial year, in the form of Covid related funding support and/or commercial loan, subject to approval by this Committee; and*
  - (b) *consider such a request for assistance from Edsential to this Council and to Cheshire West & Chester Council, which assistance shall only be granted subject to the approval of this Committee and which should include assessment of the request (due diligence), revised business plan(s) and any conditions considered appropriate to be applied at the point of offer.*
- 1.4 Both Councils, as joint shareholders, have been in discussion with Edsential over the expected loss of income due to Covid-19 restrictions and what offer of financial support the Councils could provide. The expected loan payback and how Edsential might make these additional payments have formed part of these discussions. A variety of options have been considered during the negotiations on the overall company and shareholder arrangements, including financial and efficiency options for Edsential. The recommendations in this report provide a balance that weighs the future of the company, financial commitment and exposure to risk for Wirral Council (which is in line with CWaC as an equal shareholder) and expectations on the company about future efficiency savings especially those affecting their employees.
- 1.5 The Edsential Board in signing off their annual accounts will need to be satisfied that the company is a going concern with access to necessary funding. A letter of comfort may therefore be required from shareholders confirming this position.

## 2.0 OTHER OPTIONS CONSIDERED

2.1 A series of other options have been considered as part of the discussions with CWaC and Edsential, which can be summarised as:

- Overall company options – ownership arrangements
- Financial support options – mixes of funding
- Edsential efficiency options – proposals of how to bridge the funding gap

2.2 There is an option to provide no further support to Edsential. Such an option would place the company under severe financial pressure and an increased risk of failure.

2.3 If this option was taken, there would be financial and resource implications for the Councils should the company fail. Both Councils have provided pension guarantees to Merseyside Pension Fund. These could be requested if the company ceased and here would be potential liabilities for redundancy costs and risk to any cashflow monies advanced. Schools would be impacted through requiring to source alternative service suppliers which would involve resource to procure and services could be more expensive.

2.4 An option would be to return Edsential Services to direct Council control. The partners would need to agree how to wind up the company. It is presumed that the Councils would choose to carry out a solvent liquidation so that the company's staff, creditors and customers were protected and reputation damage was minimised.

Each Council would need to decide to either step in and pick up delivery of services themselves or to work with schools to arrange for some of the company's services to be transferred to another provider. There would be a number of advantages and disadvantages from this

### Advantages

- Reduce overhead and additional governance from operating a standalone company
- Would strengthen alignment between Council strategies and policy
- Would protect pay and employment for majority of staff
- Would allow councils to subsidise provision to schools if that is policy

### Disadvantages

- This would not reduce short term losses. Edsential would have no means of repaying the Councils existing loans back and losses in 2020-21 would still become costs to Council.
- Losses projected for 2021-22 would still occur but may grow if external governmental covid support is no longer an option
- Significant new transition costs due to potential redundancies, new branding, new infrastructure
- No option to defer short term revenue losses against future profits
- 3 year contracts that Edsential has with most of its schools would no longer be binding, may lead to break up of service if schools don't agree to transfer to Council
- Loss of economies from not operating across boroughs

- The original business case for the establishment of Edsential was predicated on the decline of service provision by the councils, higher cost and competition, all of which remain valid and would provide a challenging environment to operate within.

### **3.0 BACKGROUND INFORMATION**

- 3.1 Edsential is a Community Interest Company. It is equally and jointly owned by the Council and CWaC Council. Its mission is, “Improving outcomes for children and young people.” It was formed in December 2015 and, save for the times when it was prevented from doing so during the COVID 19 pandemic, delivered a wide range of education and support functions to schools, academies, parents, and other education establishments. It generated approximately £19.4m of income in the last full year pre-covid .
- 3.2 Approximately £22m of income generating services, focused mainly on catering, cleaning, residential activity, music and school improvement were transferred from both Councils to the newly formed company in 2015, along with the relevant staffing, contracts and associated expenditure. A number of changes have taken place in the company since inception. Wirral Schools exited the curriculum support service level agreement in 2017 resulting in a drop of turnover of £2.2m, whilst catering services were in decline when the company commenced. Income has increased each year since 2017 up to the time when the impact of the pandemic was felt.
- 3.3 Edsential was trading effectively and projected to generate an operating surplus of approximately £100,000 for the year to March 2021. In the past, operational surpluses have been deployed to either reduce cashflow loan funding received from the shareholder councils and/or provide grants to schools in both Council areas for school improvement activities.
- 3.4 Over and above the impact of the COVID pandemic, it is noted the company has identified a financial pressure arising from the shareholders requirement for employees to be paid at or above the Real Living Wage. The company therefore has a need to reflect the covering of these costs within its business planning so as to maintain viable operations.
- 3.5 As part of the arrangements for establishing the company, both Councils agreed to provide Edsential with a Working Capital Loan facility. The facility is required as the company is reliant upon income streams for services provided, to finance its expenditure. The Company operation means that costs of provision are incurred before income is received leading to a temporary cashflow timing issue. The company makes use of the facility as and when it needs to draw down cash to make payments and repaying as cash for services supplied is received.
- 3.6 On 16<sup>th</sup> December 2020 the Policy and Resources Committee agreed to approve the renewal of an interest bearing working capital cashflow agreement of up to £2 m. A sum equal to this was also agreed by CWaC. A 5-year term was agreed for the renewed cashflow facility.

- 3.7 The Covid-19 pandemic has impacted upon Edsential's previous business plans and expected income streams. Although governmental support has been utilised by the company, it requires additional facilities beyond the cashflow agreement to cover exceptional costs and losses of income arising from Covid-19.
- 3.8 In March 2021, the Policy and Resources Committee agreed to provide a letter of comfort to Edsential to set out assurances that financial support will be provided to the company over the current financial year, in the form of Covid related funding support and a loan, subject to approval by this Committee. This letter of comfort was provided to the company to share with its auditors. It also agreed at the same meeting to consider a request from the company for financial assistance.
- 3.9 Discussions have taken place between the company and officers of the Council and of CWaC Council about the precise nature of the additional financial facilities that should be offered to Edsential. Covid related grant funding, along with loan funding from each of its shareholder councils, should not only enable it to continue to trade but will support Edsential's endeavours to exploit gaps in its various markets caused by other operators withdrawing or ceasing to trade. This is particularly true in the area of providing outdoor education residential facilities through a restructured offer which would include a rationalisation of the facilities deployed. The company has already indicated that it will not re-open the Outdoor Education Centre at Oaklands, in North Wales, leased from the Council (the lease has been relinquished.). It is planning to close another similarly uneconomic facility owned by CWaC Council.
- 3.10 A joint discussion was held between members of the Wirral Council Shareholder Board, relevant Cabinet members from CWaC and senior officers of both Councils on July 8<sup>th</sup> to further discuss the options available to the joint shareholders. This included overall company and shareholder arrangements, financial and efficiency options. The briefing paper for this meeting is contained in Appendix 2 which is exempt as it contains commercial information.
- 3.11 The process of reviewing the Draft Annual Business Plan for 2020 for shareholder approval was interrupted by the COVID crisis and the company is preparing a revised version for 2021 for presentation to shareholders which will be presented to the Shareholder Board for approval.
- 3.12 A mix of Covid related grant funding and interest-bearing loans from the two Councils will enable the company to deal with the impact of the Covid 19 pandemic. The grant amount allocated has been calculated using a similar basis to what would have been receivable for Council services under the Sales, Fees and Charges Income Compensation scheme for 2020/21. The balance of financial support offered is a loan that will be repayable with interest. The basis is that the new business plan for the company will enable the company to recover well over the forthcoming years but that there is a need for a short-term injection of cash, details of which are set out below.

## **4.0 FINANCIAL IMPLICATIONS**

- 4.1 A mixture of covid grant funding, of £643,000, and an interest bearing loan, of £857,000, is being recommended. Details of the funding and assumptions made are provided in the exempt Appendix 1 to this report.
- 4.2 In agreeing any arrangement the Council must be satisfied that the company can repay the loan. Proposals from the company regarding any budget efficiencies and income raising measures in relation to the loan refinancing will need to be agreed. The exempt Appendix 2 details proposed measures the company is suggesting can be taken to ensure the company can return to profit and generate the necessary revenue to repay the requested loan. Officers from Wirral and CWAC Council have analysed the proposals and determined they are viable. Any loan however carries with it the risk of loss if assumptions or circumstances do not turn out as assumed. A long-term loan is being suggested to allow the spreading of repayments in order to minimise annual costs and to provide requisite financial headroom for viable company operations.
- 4.3 Were the company to cease trading, there would be financial implications regarding pension guarantees, accumulated losses, cashflow The funding already advanced redundancy costs and any service continuity requirements. Exempt appendix 1 contains a high level assessment of such costs.
- 4.4 Any support provided will not have a detrimental impact on the Council's revenue budget as part of the funding will come from the Council's emergency covid-19 tranche funding, commensurate with the government sales, fees and charges compensation scheme, and any costs associated with providing a loan would be offset with the repayment of principal and interest by Edsential.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 Edsential is a local authority controlled company, established under the Local Government and Housing Act 1989 and which operates under the provisions of that and related legislation, including the Local Authorities Companies Order 1995 and the Local Government Act 2003 and Trading Order 2009 as augmented by the Localism Act 2011.
- 5.2 Edsential is established as a Community Interest Company in which the Council owns half of the issued share capital and CWaC Council holds the other half. Edsential accordingly has limited capacity to distribute dividend income and has additional regulatory requirements to meet. There is a commitment that the company is not established for private gain and any surplus or assets are used principally for the benefit of the community.
- 5.3 Its purposes are education support services and other food services. Its activities relate primarily to school catering and cleaning, support to creative and performing arts, governors, health and wellbeing, music, residential visits and training.

- 5.4 Any further financial facility offered to Edsential needs to be subsidy control compliant so as not to provide an unfair advantage to the company and be compatible with the Council's fiduciary duty to local taxpayers.
- 5.5 To the extent that it provides such services which are a function of the Council, it would then fall on the Council to discharge such services in its area if the company was to cease to carry those out.
- 5.6 The services currently being delivered by the company are limited to
- (i) the provision of Health and Safety advice and the maintenance of a register for schools, where the Council is employer, when schools organise trips outside normal school hours; and
  - (ii) the co-ordination of the school governors' statutory support function which involves giving relevant advice and sign posting training activities.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 6.1 There are no direct implications to staffing, ICT or Assets.

## **7.0 RELEVANT RISKS**

- 7.1 In the event that the company ceases to trade as a result of financial support not being provided there are two main risks:

The negative impact on schools and school children in the area who may receive inferior services from less socially motivated suppliers.

The financial risk to the Council that:

- its working capital loan may not be repaid in full;
- some services may fall back to the Council to be delivered;
- it will be required to cover redundancy costs and possibly other debts of the company.

- 7.2 Such risk would be mitigated by the proposals within this report.

## **8.0 ENGAGEMENT/CONSULTATION**

- 8.1 Briefings have been provided to Members appointed to the Shareholder Board (sub-committee).
- 8.2 Discussions have taken place between this Council and CWaC Council, between officers and elected Members, to develop a shared approach. There have also been discussions with Edsential over the proposals. CWaC's Cabinet and the Edsential Board will be receiving recommendations for agreement as laid out in this report.

## **9.0 EQUALITY IMPLICATIONS**

- 9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact

Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.

- 9.2 Edsential currently delivers advice, support, and training to its employees and to schools, parents and young people on Safeguarding, E-Safety and the application of technology, and actively promotes the safe and effective use of technology.
- 9.3 It also offers Safer Recruitment training from the Safer Recruitment Consortium as well as support and guidance on safeguarding.
- 9.4 Through its work with the Governors Services the company provides training on the safe use of technology, Safer Recruitment, Academisation, Pupil Premium funding and preparing for Ofsted.
- 9.5 There are no direct equality implications arising from this report.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

- 10.1 There are no direct implications from the recommendation. Edsential seeks to employ local staff and utilise local suppliers where possible thereby reducing the impact of travel miles. The company states on its website that it is the first certified sustainable palm oil catering company.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

- 11.1 Edsential has a strong track record for contributing towards community wealth. It has been established as a community interest company and ensures that, "All Edsential profits are directly reinvested -into improving our services and supporting progress in schools within our community". A main strength that the company demonstrates is by employing local staff especially for the school catering offer. The company also delivers a good training programme for its staff. The company also looks to purchase locally. The financial support for Edsential proposed in this report will also ensure that those locally employed staff on the Real Living Wage will continue to receive this going forward from the company. Edsential has also become the "World's First Certified Sustainable Palm Oil Catering Company".

**REPORT AUTHOR:** **Peter Molyneux**  
**Senior Finance Manager**  
email: [petemolyneux@wirral.gov.uk](mailto:petemolyneux@wirral.gov.uk)

## **APPENDICES**

Appendix 1 and 2 to this report contain exempt information as defined in Schedule 12 of the Local Government Act 1972. It is in the public interest to exclude the press and public during consideration of this item under paragraph 3 (information relating to the financial and/or business affairs of any particular person including the authority holding the information).

Appendix 1 – Proposed Financial Support Detail - Exempt  
Appendix 2 - Briefing Note for joint meeting on Edsential Covid Losses and Council responses- Exempt

## **BACKGROUND PAPERS**

'Edsential – Joint Shareholder Financial Update' February 2021  
*(Not for publication Para 3 (Information relating to the financial or business affairs of any particular person) Sched 12A, Local Government Act 1972*

Edsential Shareholder Agreement  
Wirral Council Plan 2025  
Localism Act 2011

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Policy and Resources Committee	24 March 2021
Policy and Resources Committee	21 December 2020