



SHAREHOLDER BOARD

Thursday 21st March 2024

REPORT TITLE:	EDSENTIAL DRAFT ANNUAL BUSINESS PLAN 2024 - 2025
REPORT OF:	DIRECTOR OF FINANCE

REPORT SUMMARY

This report invites Shareholder Board to consider and review the Draft Annual Business Plan submitted by Edsential CIC ('Edsential') recording its performance against last year's Annual Business Plan, setting out the current position of the company, its view of the immediate future and steps that it proposes to take to continue trading successfully and compliantly. It seeks approval for the draft Annual Business Plan.

This supports the Early help for children and families; Promoting independence and healthier lives; Protect our environment; and Safe, resilient and engaged communities themes set out in Wirral Working Together – a Council Plan for 2023 - 2027.

The proposals within this report affect all wards.

This is not a Key Decision.

EXEMPT INFORMATION

Appendices 1 and 2 to this report contain exempt information as defined in Schedule 12A of the Local Government Act 1972. It is in the public interest to exclude the press and public under Paragraph 3 'Information relating to the financial or business affairs of any particular person' (including the authority holding the information)."

RECOMMENDATION/S

The Shareholder Board is recommended to approve the draft Annual Business Plan as attached to this report and allow Edsential to continue to trade in the manner proposed in the attached Draft Annual Business Plan

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The proposals contained in the Draft Annual Business Plan are not substantially different to those approved by Policy and Resources Committee on the 12th July 2023 and remain the most realistic chance of leading to the repayment of the currently outstanding loans.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Members could seek amendments to the draft Annual Business Plan but this is not recommended in the context of the satisfactory performance of the company. Members will recall that on the 12th July 2023 Policy and Resources Committee reviewed a detailed option paper and approved the recommendation to accept the draft annual business plan presented therewith.

3.0 BACKGROUND INFORMATION

- 3.1 The Council's Cabinet agreed on 10th September 2015 to the establishment of an educational services company to be known as Edsential. This was following the submission and review of a full business case developed with support from the national government's Cabinet Office, Price Waterhouse Coopers and Council and Cheshire West and Chester Council under the national 'Delivering Things Differently' programme. The company was set up as a community interest company (CIC) with equal joint ownership between the two partner Councils. As a Community Interest Company Edsential is prohibited from making a full distribution of profits to shareholders by way of dividend and must deploy surpluses in accordance with its community interest statement as set out in its Articles. The company was established on a cost recovery basis and apart from modest philanthropic grants has traditionally used surpluses to reduce its debts.
- 3.2 Local management of schools provided schools with independence to determine how and who provided service arrangements. There was significant growth in schools choosing to receive services from external providers. This created financial difficulties for in-house services and there was less control over standards and terms and conditions from external providers. The belief was that as a not-for-profit company Edsential could compete and maintain a public sector ethos with all profit invested into improving outcomes for children. Schools would benefit from receiving higher quality services with both a commercial approach and improved value for money. The Councils would retain a strategic role in the shaping and delivering of high attainment in schools. The new company would support the local economy through the creation of a thriving local business generating employment and skills.
- 3.3 Services and staff transferred to Edsential included:
- School Catering;
 - School Cleaning;
 - Outdoor Education;
 - Governor Support;

- Music Services;
- School Development / Improvement.
- Learning outside the Classroom; and
- Data Support

3.4 The company was intended to be self-funding, to trade on a cost recovery basis and not require subsidy from either council. The business plan did assume that Edsential would incur set-up costs and incur losses in early years and therefore require repayable cash flow funding. Both Councils agreed to provide up to £2m each of repayable cash flow funding charged at a deemed market rate of interest.

3.5 Financial Performance

3.5.1 The company routinely reports to officers in the council’s finance team with quarterly management accounts. Reports of any unsatisfactory position revealed by such accounts or any other financial concerns would be brought to shareholder board for consideration.

3.5.2 The Covid-19 pandemic had a significant detrimental impact upon Edsential. The closure of residential centres and reduction in school activities severely reduced the level of income receivable whilst at the same time incurring unavoidable fixed costs. The table below shows the significant loss of revenue in 2020/21 and 2021/22 which were impacted by Covid-19 restrictions. Revenue levels somewhat recovered in 2022/23 but are now being impacted by the cost-of-living crisis which has slowed down the level of recovery of discretionary spend areas such as residential course income.

Table 1 – Revenue Generation and Profit/Loss (-)

	2020/21	2021/22	2022/23	2023/24 *
	£000	£000	£000	£000
Revenue income	14,085	15,345	18,262	18,300
Profit/Loss (-)	-1,520	-1,667	-560	15

*2023/24 forecast outturn position subject to audit.

3.5.3 The latest reported financial position for the company shows a forecast management account profit for 2023/24 of £15,000 (subject to audit). This forecast excludes movements in the assets and liabilities of the pension fund, which are beyond Edsential’s control. The latest external audit report for Edsential confirmed that the company is a going concern. This opinion was on the basis of the ongoing loan support from shareholders.

3.5.4 Edsential provides a number of services to schools. The company operates in a very competitive market and schools have the choice who to contract with for services. The exempt Appendix 2 provides details of the budgetary forecasts by service area.

3.6 Covid-19 Pandemic

- 3.6.1 The Covid-19 pandemic resulted in losses to the company as outlined in table 1 above. Residential course income was severely curtailed due to lockdown restrictions, whilst similarly restrictions to schools limited service provision and the ability to generate income at a time the company had various fixed costs. A series of meetings took place between the company and shareholders during the pandemic to review the situation and to receive updates on what was a dynamic situation.
- 3.6.2 Policy and Resources Committee of 11th November 2021 agreed to a package of support to assist the company. This consisted of a grant of £643,000 (based on an approximation of what the company may have received from the government's fees and charges support scheme if it had been an in-house operator) and an interest bearing loan of £857,000. The loan principal repayments begin from the end of year 2. The arrangements included measures to be taken by the company to generate the necessary returns to finance repayments, which would require some time for implementation. The Council's grant and loan package was mirrored by Cheshire West and Chester Council with the exact same terms applying.
- 3.6.3 The covid support loan was in addition to the cashflow facility which was previously renewed by both Councils in late 2020 (Policy and Resources 20th December 2020). This provided up to £2m per shareholder in a cash flow loan facility. The loans were interest bearing and even during the most financially challenging times of the pandemic were never fully utilised.
- 3.6.4 Edsential has made good progress in reducing loan balances. Part of this will be due to the application of the covid grants advanced. The current balances are stated in exempt Appendix 2.
- 3.6.5 The ability to repay outstanding loans will be predicated upon Edsential's ability to generate the necessary level of return to service debt. Further losses will inevitably curtail the scope for repayment. This would then risk impacting upon the Council's budgetary position.

3.7 Management Review

- 3.7.1 A visit was undertaken in April 2023 to Edsential offices to review the financial position of the company, the business plan and discuss the issues and challenges that the company faces. This meeting was attended by officers from both shareholders. The review undertaken considered the proposed business plan and longer-term strategy for recovery post Covid. The report was considered in detail in a report taken to Policy and Resources Committee on 12th July 2023.

4.0 FINANCIAL IMPLICATIONS

- 4.1 Edsential currently has outstanding interest-bearing loans as set in in exempt Appendix 2. There is risk that further support could be required should plans not be achieved.

5.0 LEGAL IMPLICATIONS

- 5.1 The Company was established with the appropriate Certificate of Incorporation for a Private Limited Company/Community Interest Company with associated articles on

20 April 2015. The Shareholder Agreement was agreed on the formation of the Company.

- 5.2 The Company was established to provide and carry on activities which benefit all the inhabitants of the administrative areas of Cheshire West and Chester and Wirral Council and elsewhere, and, in particular, schools, educational facilities, children, young people, parents and adults by the provision of educational support services. In addition, the Company may conduct such other business as is set out in its Business Plan.
- 5.3 The Company is required to produce an Annual Business Plan to the Shareholder Board for approval in accordance with the terms of the Shareholder Agreement.
- 5.4 The company and its board of directors have legal responsibilities in respect of the running of the company's financial affairs. The company can operate at a loss as long as there are reasonable grounds for believing these losses can be recovered in future trading periods.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 Edsential is a Community Interest Company employing its own workforce and with its own ICT and asset arrangements. Resources from the Council involve loan finance.

7.0 RELEVANT RISKS

- 7.1 There is financial risk that further finance may be required to support the company should forecast activity plans not be realised. Without a successful delivery plan, the company will find it difficult to repay existing loans.
- 7.2 There is a reputational risk to the Council should the company fail. This would be over a number of areas including workforce, suppliers and clients.
- 7.3 Without a detailed Annual Business Plan the Council as shareholder does not have a clear set of objectives against which to monitor the performance and effectiveness of the Company generally and in particular against the Shareholder Agreement and the Company's Strategy. A comprehensive Annual Business Plan is an important tool in mitigating these risks.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 Council officers and officers from Cheshire West and Chester Council have been engaged in briefings with the company in respect of the business plan and the company's financial position.

9.0 EQUALITY IMPLICATIONS

- 9.1 The 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. There are

no equality and diversity implications arising out of the proposals set out within this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are no direct environment and climate implications arising from the subject matter of this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The company employs a work force comprising of many local Wirral residents. Edsential strives to be an employer offering terms and conditions which exceed competitors in the challenging market it operates in. This supports community wealth.

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APPENDICES

Exempt Appendix 1 – draft Annual Business Plan 2024 – 2025

Exempt Appendix 2- Further financial information regarding Edsential

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BACKGROUND PAPERS

Shareholders' Agreement

Annual Business Plan for year 2023 - 2024

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Policy and Resources	12th July 2023