

Report to the Cabinet

Report reference: C-061-2020/21
Date of meeting: 11 February 2020



Portfolio: Commercial and Regulatory Services – Cllr A. Patel
Subject: Qualis Quarterly Monitoring Report – Q4 2019/20 (Outturn)
Responsible Officer: Andrew Small (07548 145665).
Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

To discuss this report and agree any actions required;

1. Executive Summary

- 1.1. The Governance framework for Qualis, as agreed by Cabinet in February 2020, set the requirement that Qualis should report to Epping Forest District Council on its performance Quarterly.
- 1.2. The management report presented by Qualis covers the 4th Quarter up until the 31 October 2020, and so is effectively the year end. This 4th Quarter takes longer to produce as it needs to align to the Final Accounts and Audit process. This was completed on the 21 January 2021 and so the reconciled management information has now been provided to the Council.
- 1.3. Attached to this report as Appendix A is the Qualis Board monitoring report for Quarter 4 as agreed by the Qualis Board.
- 1.4. Attached as Appendices B(1 to 4) are the Qualis Audited final accounts. These fully comply with the accounting requirements for this type of company, they mirror the management accounts presented here and the Auditors have raised no issues of concern. They are only presented to evidence that reporting requirements have been met but it should be noted that the Board reports provide a more detailed narrative.
- 1.5. The first year's trading for Qualis was almost entirely taken up with set-up, governance and the appointment of a permanent staffing structures. The Coronavirus pandemic had a significant impact in terms of delaying this whilst the Council focused on the immediate response effort. As a result, very little income was received during the first year, whilst costs were still incurred in the form of professional fees, equipment, salaries and recharges to the Council. Consequentially, the combined loss across the Qualis Group totalled £1.49 million and this will be added to the Qualis Balance Sheet and carried forward and set against future expected profits.

- 1.6. Despite making a loss as a Group taxation was still payable on elements of Qualis activities and this Tax has been paid at the appropriate levels. The calculations of Tax payable have been certified by Qualis Auditors.
- 1.7. Whilst the original expectation was that certain activities, such as the acquisition of commercial property and the transfer of housing maintenance activities would have happened earlier in the Qualis trading year it was always envisaged that the Qualis Group would incur losses, at least in the 1st year.
- 1.8. So, whilst the 1st year trading losses were greater than originally forecast, (because of the delays caused by Covid19), losses in the first year were still expected.
- 1.9. The single year Business Plan recently presented to, and agreed by the Council, for the Qualis 2nd year of trading, forecasts a small surplus in the period up to 31 October 2021. This effectively being the first full year of full trading operations.
- 1.10. **Given the points above and noting the impact of Covid19 on all Council activities, Qualis has performed in line with expectations across its first year up until 31 October 2020.**

2. Introduction

- 2.1. The Qualis Shareholder agreement, as agreed by Cabinet on February 2020 includes the following paragraph,

‘The Company shall procure that quarterly management accounts and reports (including a balance sheet, profit and loss account and cash flow statement) containing such information as EFDC may reasonably require are provided to EFDC and EFDC’s Representative.’

- 2.2. The Cabinet resolution also requires that the Council’s S151, as the key conduit between Qualis and the Council, provides a commentary to the Council on the performance of Qualis at each Quarter review.
- 2.3. In compliance with this requirement Qualis has provided the Council with the final 2019/20 cumulative quarter’s Management Accounts for the Council’s consideration. During most of this first year Qualis has been focused on the set-up and the initiation phase of its Business Plan, with any income generation happening only in the last few weeks of this period. This has taken longer than expected as all things have been impacted by Covid-19.

3. Commentary on the Trading Performance

- 3.1. The first year of operation was non-typical in that Qualis needed to secure finance and acquire assets and services from the Council before it could trade. The transfer of Housing Maintenance was only completed at the end of September 2020 and Qualis made its first acquisition of commercial property in Quarter 4, although the transaction wasn’t completed until early November. All activities were significantly delayed as the Council focused on the priority issue of responding to the Covid19 Pandemic.
- 3.2. It has been consistently flagged in the Council’s own financial monitoring reports that this was the case and that the delays would have an impact on the income the Council had expected to receive from Qualis during 2020/21. This financial impact is

seen as another cost to the Council of the Pandemic. Forecasts and budget were adjusted accordingly.

- 3.3. In all other respects this upfront loading of costs was expected and allowed for within the Qualis Business Case and the Council has signed this off. Now that the set-up work is largely complete Qualis is focussing on trading activities, such as service delivery and progressing the regeneration of the Epping Forest DC sites that the Council agreed to sell to Qualis. For the second year of Qualis operation the management accounts should look more typical of trading operations, (recognising that the business operation of Qualis will still need to be built up over time).
- 3.4. The Qualis report attached at Appendix A meets the requirements placed upon Qualis within the Shareholder agreement. The Board report presents the Balance Sheets, P&Ls and a Cash Flow explanation. It also RAG (Red, Amber, Green) rates key quarterly deliverables against the Business Plan.
- 3.5. **Cabinet should note that all deliverables are flagged as Green, with the exception of moving forward on the purchase and delivery of a plan for the Pyrles Lane site and the acquisition of commercial properties within Qualis Living, which was delayed into early November.**
- 3.6. The Covid-19 pandemic has had an impact on the speed at which set-up and initiation could progress. As a result, the transfer of Housing Maintenance staff and agreeing loan document has taken longer than originally expected because of pressures on both Epping Forest District Council and Qualis. This delay created a consequential impact on both the Qualis Business Plan and the Council budget. The main contributory factors being;
- Key Staff (Qualis and Council) being focused on Covid19 response
 - Volatility in the asset market which needed time to settle
 - Uncertainty in the capital markets impacting on financing rates
- 3.7. The consequence of these delays is a slower rate of spending compared to the Business Case, although forecasts were adjusted to reflect the delays in year. The table below sets out the actual expenditure against that expected for each of the Qualis companies taken from the Q4 Board report.

Qualis Company	Expected £	Actual £	Variance £
Group	0	16,380	16,380
Commercial	-926,289	-971,738	-45,449
Management	-336,255	-352,953	-16,698
Living	-210,458	-182,916	27,542
Total	-1,473,002	-1,491,227	-18,225

- 3.8. Housing Maintenance operations have transferred across to Qualis smoothly. The service appears to be running well, with efficiency and satisfaction improving, (allowing for the current revised working arrangements associated with Covid19).
- 3.9. In all other respects the Qualis Business Plan objectives are being met and showing good performance against the individual targets, (set out with section 7 on the Qualis

Board report), including progress on bringing forward the redevelopment sites in the District,

4. Resource Implications

- 4.1. The Epping Forest District Council agreed to finance the creation and capitalisation of Qualis in the form of a series of loans. This provided security over the asset and the potential of a lenders margin.
- 4.2. As at the 31 October 2020 the position was as follows in terms of awarding loan finance:

Loan Purpose	Amount and Term	Current Status	Interest Payments Per Annum £
Working Capital Loan	£5M for 5 years	Completed @ £6M	£225,000
Asset Purchase	£30M for 30 years	Completed @ £30M	£1,800,000
EFDC Asset Purchase	£22M 30 years	£18.9M - In Progress	£1,605,000
Less EFDC Borrowing Costs			-£1,306,337
Total	£57M	£36M	£2,323,663

Note: The Council has also agreed to provide £66 million of development finance to bring forward the regeneration of the sites sold to Qualis

- 4.3. At year-end Qualis was indebted to the Council for £36 million. Once all loans in the table above are complete, they will generate Epping Forest £2.3 million of interest income, net of borrowing costs. This increased diversification of income sources is significant in allowing the Council to set and maintain a balanced budget and reduces a reliance on Council Tax, Business Rates and Government support.
- 4.4. In addition to additional income from interest, the Council also receives income from Qualis for services and accommodation in the form of recharges. This amounted to almost a further £192,000 in 2019/20.

5. Legal and Governance Implications

- 5.1. None contained within this report.

6. Safer, Cleaner and Greener Implications

- 6.1. None.

7. Consultation Undertaken

- 7.1. None

Background Papers

Group Company Governance Document – Cabinet 6 February 2020