



Qualis Group

Incorporating, Qualis Group, Qualis Living, Qualis Management, Qualis Developments

# **Finance and Performance Monitoring Quarterly Report**

**Year 1, Quarter 4, (1<sup>st</sup> Aug 2020 – 31<sup>st</sup> Oct 2020)**

**Subject: Finance and Performance Monitoring**

**Author: Nick Dawe, Qualis Finance Director (interim)**

**Decision Required: To approve the report.**

- 1. To note that the report has now been updated to fully agree with the figures contained in the final accounts.**
- 2. To consider the report and agree that this report should be passed to Epping Forest District Council in line with the shareholder agreement (with any agreed amendments as needed).**
- 3. To support the key actions detailed in Section 8 or this report.**
- 4. To note that future reports will contain more operational performance and investment performance issues.**



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## **1. Introduction**

- 1.1 The Qualis Group Board receives at its informal weekly update reports on key financial and operational matters. On a monthly basis at the formal Qualis Group Board Meetings more detailed papers are presented on financial and operational matters as circumstance dictate.
- 1.2 In line with the shareholder agreement, and to reflect Qualis Group's needs, a quarterly Finance and Performance Report will be produced, that tracks the success of the Group against the originally agreed Qualis Group Annual Business Plan and Annual Budget.
- 1.3 This formal monitoring will take into account any Board approved amendments to the Business Plan and Annual Budget.
- 1.4 The report will usually be produced quarterly and be considered by the Qualis Board the month after the reporting period covered by the report.
- 1.5 In view of the first quarter being a period of basic set-up activities following company registration in October 2019, this report covers the full financial year.

## **2. Key Performance Indicators**

- 2.1 The key performance indicators set-out below are those proposed to be used for monitoring purposes in the future. They are top level indicators of the financial health and operation delivery of the Qualis Group.
- 2.2 Major exceptions are reported in detail at Sections, 3, 5, 6 for finance and Sections 7. 8 and 9 for operations.
- 2.3 Further detail is available on request and/or already exist in the form of detailed Qualis reports and minutes.



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**2.4 In line with standard practice, the following colour coded performance flags are used:**

<b>Colour</b>	<b>Overall Performance</b>	<b>Detailed Measure</b>
	Cyan, exceptional performance	For finance; over twice the expected figure, for operations, over one month ahead of target delivery
	Green, good performance	For finance; positive performance up to twice the expected figure, for operations, up to one month ahead of target delivery
	Amber, poor performance but will be remedied next quarter	For finance; negative performance variance of between 5% and 10% of the expected figure, for operations, one and three months behind target delivery
	Red, poor performance but will be remedied in two further quarters	For finance; negative performance variance of between 5% and 10% of the expected figure, for operations, one and three months behind target delivery
	Black, poor performance requiring immediate board level intervention	For finance; negative performance variance in excess of 10% of the expected figure, for operations, over three months behind target delivery



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## 2.5 Direction of travel indicators

These will be: + better than last quarter, - worse than last quarter, = as last quarter.

## 2.6 Key Performance Indicators: Finance

KPI	Measure	Target £	Actual £	
Cash	Cash held by Qualis Group of companies, target versus actual	£3,000,000	<b>£32,700,330</b>	=
Income and Expenditure	Total income and expenditure position of Qualis Group of companies, target versus actual	-1,500,000	<b>-1,491,226</b>	=
Balance Sheet	Net balance sheet worth of Qualis Group of companies, target versus actual	-1,500,000	<b>-1,491,226</b>	=

## 2.7 Key Performance Indicators: Operations

KPI	Measure	Target	Actual	
Qualis Commercial				
	Delivery to plan of Epping sites			
(at pre-planning submission stage)	Review use of sites and prepare for consultation in September	Public consultations complete		
=				
Qualis Commercial	Delivery to plan Waltham Abby Roundhills site (in early stages of review)	Detail to be received Q4	Not applicable	
Qualis Commercial	Delivery to plan Debden Pyrles Lane site (in early stages of review)	Consider purchased from EFDC in Q4	Not applicable	
Qualis Management	Transfer of Housing Maintenance Service			



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## **2.8 Performance Overview**

Satisfactory and expected operational progress has been achieved in quarter's one and two with financial performance mirroring this operational delivery.

## **3. 2019/20 Qualis Business Plan and Amendments This Quarter**

3.1 There have been no agreed amendments in Year 1, Quarter 4.

## **4. Cash Flow Summary**

4.1 The Qualis Group of companies was established on a highly leveraged basis, i.e. supported by loans from Epping Forest District Council and not by equity investment. It should be noted that EFDC has the first option of providing loans to the Qualis Group of companies provided these loans are at market rate.

4.2 In practice the margin paid by Qualis on all its planned loans covers all EFDC's general development costs that are now envisaged.

4.3 This approach provided start-up security for Qualis, especially as the Covid 19 has distorted the money markets, whilst giving EFDC an income on the additional margin it charges on loans over and above the rate it can secure money for itself. This approach also in line with addressing "state subsidy" concerns.

4.4 The draw-back of this approach to Qualis is that it makes asset purchases and construction projects to the Qualis Group of companies marginally more expensive than would otherwise be the case.

4.5 The loans agreed and made to Qualis are;

- £6m working capital loan (5-year term, repayments of principal and interest half yearly).
- £30m asset investment loan (10-year term, principal repaid on maturity and interest half-yearly).

4.6 The actual cash held by Qualis at the end of October was £32,700,330 against a target expectation of £3,000,000. The difference is because though two investment properties had been secured, final completion and payment did not occur until early November.



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## 5 Balance Sheet Summary

5.1 Reflecting the leveraged position of Qualis and the fact that income earning assets have yet to be purchased and the Housing Maintenance Service has yet to transfer. Please note that these are the interim balance sheets pending a review of the income and expenditure position and the finalisation of loans.

5.2 It should be noted that the costs of development projects is by convention treated as "work in progress i.e. an asset.

5.3 All loans pass through Qualis Group and therefore any uncalled balance remains shown at group level even if the destination of the loan is another company on the Qualis group of companies.

### 5.4 Qualis Group

		Actual £	Actual £
Assets		0	
Current Assets		36,035,771	
Current Liabilities		519,391	
Current Assets Less Current Liabilities			35,516,380
Long Term Assets			
Long Term Liabilities			35,500,000
Total			16,380
Profit and Loss Account			16,380

### 5.5 Qualis Commercial

		Actual £	Actual £
Assets		0	
Current Assets		2,100,484	
Current Liabilities		915,220	
Current Assets Less Current Liabilities			1,185,263



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Long Term Assets			
Long Term Liabilities		2,157,000	
Total			-971,737
Profit and Loss Account			-971,737

### 5.6 Qualis Management

		Actual £	Actual £
Assets		82,180	
Current Assets		767,359	
Current Liabilities		777,492	
Current Assets Less Current Liabilities			72,047
Long Term Assets			0.00
Long Term Liabilities		425,000	
Total			-352,953
Profit and Loss Account			-352,953

### 5.7 Qualis Living

		Actual £	Actual £
Assets		74,717	
Current Assets		6,400,985	
Current Liabilities		383,618	
Current Assets Less Current Liabilities			6,092,084
Long Term Assets			



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Long Term Liabilities			6,275,000
Total			-182,916
Profit and Loss Account			-182,916

## 6 Income and Expenditure Summary

6.4 The income and expenditure summary for the individual companies that form the Qualis Group of companies is summarised below. Noting that the figures are cumulative to the end of Quarter 4 and exclude internal recharges, loans and other amendments that will be shown from Quarter 4.

### 6.5 Qualis Group

	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	775,853	695,066	-80,787
Expenditure	775,853	674,820	-101,033
Net +Profit / -Loss	0.00	20,246	-20,246
Tax Liability		3,866	3,866
Total	0.00	16,380	16,380





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### 6.6 Qualis Commercial

	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	0	0	0
Expenditure	926,289	971,738	45,449
Epping Projects		0	0
Net +Profit / -Loss	-926,289	-971,737	-45,449

Key issues to note:

- Operational costs incurred in delivering projects the costs that cannot be treated as “work in progress”.

### 6.7 Qualis Management

	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	518,667	475,978	-42,689
Expenditure	854,922	828,931	-25,991
Net +Profit / -Loss	-336,255	-352,953	-16,698

Key issues to note:

- Including set-up costs incurred before services were transferred from EFDC to Qualis in late September.



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## 6.8 Qualis Living

	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income, (less hand-through)	150,000	17,452	-132,548
Expenditure	360,458	200,368	-160,090
Net +Profit / -Loss	-210,458	-182,916	27,542

Key issues to note:

- Delay in acquiring properties has resulted in operational underspend and no income receipt although it should be noted that two properties were acquired in October with a gross yield in excess of 6%.

## 7 Operational Performance Summary

7.1 Key points of progress with the overarching Qualis Group of companies' business plan should be noted.

7.2 Qualis Group

- Set-up activities in terms of governance and procedures have been drafted and approved (in accordance with the shareholder agreement).
- Bankers have been appointed.
- IT office systems and email addresses have been set-up.
- Accounting and payroll systems have been set-up.
- A regular series of meetings has been set-up and operates.
- An investment and development committee has been established
- A risk and audit committee has been established
- A nominations, remuneration and governance committee has been established
- The permanent Board has been appointed
- The one-year Group Business Plan (2020/2021) has been approved



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### 7.3 Qualis Commercial

- A planning performance agreement has been signed for the Epping sites
- An outline business case has been prepared for the Epping sites
- An optimal outline plan has been prepared for the Epping sites which is in discussion with EFDC Planning
- Options for the leisure centre re-provision have been discussed with the EFDC provider.
- Options for the Epping Town Council have been discussed.
- Project managers, quantity surveyors and architects (up to Stage 2) have been appointed for the Epping sites.
- A preliminary view of the Waltham Abbey Roundhills site has been carried out.
- A preliminary view of the Debden Pyrles Lane site has been carried out.

### 7.4 Qualis Management

- Progress with the TUPE plan for the housing maintenance staff has been agreed.
- Systems and processes to support the transfer are being delivered to timescale.
- A staff consultation plan has been agreed and has commenced.

### 7.5 Qualis Living

- Acquisition of Wickes, Wyke Hill, Maldon complete
- Acquisition of the Birchwood Building, Leatherhead complete
- Investment strategy has been agreed
- Weekly investment meetings taking place
- Investment and Development Committee established
- A strong network with investment agents has been established
- Opportunity tracking and approval processes have been agreed

## 8 Key Actions

8.1 Submit planning application for Bakers and Cottis on 11<sup>th</sup> December 2020

8.2 Identify suitable opportunities to spend remaining £10m of the first property investment loan

8.3 Agree the transfer of the five Epping sites with EFDC after resolving outstanding points