

# **Report to Stronger Council Select Committee**

**Date of meeting: 13 April 2021**

**Portfolio: Commercial and Regulatory Services –  
Cllr A. Patel**

**Subject: Qualis Quarterly Monitoring Report – Q1 2020/21**

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## **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. This report presents the Qualis first Quarter's monitoring report for the Qualis trading year 2020/21 and covers the period from 1 November to 31 January 2021.
- 1.3. Attached to this report as Appendix A is the Qualis Board monitoring report for Quarter 1 as agreed by the Qualis Board on 18 February 2021.
- 1.4. With Housing Maintenance services having transferred to Qualis in Quarter 4 (end of September 2020) of the previous trading year, this quarter represents the first whole quarter of both service delivery activity, commercial investment and regeneration work.
- 1.5. The Covid19 associated delays in delivering elements of the business plan activities last year have now been reflected into the single year Business Plan approved by Council in December 2020. Therefore, this year's targets and delivery milestones should reflect the known obstacles predicted to occur during 2020/21 as a result of ongoing Covid19 impacts.
- 1.6. Performance can therefore fairly be measured against the business plan targets for 2020/21. The Board report highlights performance against these using the recognised Red, Amber, Green reporting system (RAG).
- 1.7. **Noting the objectives flagged as Amber and the explanations provided, Qualis has performed in line with expectations during the first Quarter.**

### **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 Quarters' Management Accounts for the Council consideration together with the commentary below from the Council's S151 officer.

### **3. Commentary on the Trading Performance**

- 3.1. The Qualis 1<sup>st</sup> year of operation was non-typical in that Qualis needed to create a management and staffing structure, secure finance and acquire both assets and services to manage before it could properly trade. Whilst this process remains ongoing Qualis had acquired both commercial property and the Housing maintenance by the end of its first operational year.
- 3.2. Whilst the first year was financially dominated by outgoings, the second year should be a balance of income and expenditure with a small forecast profit targeted within the single year Business Plan presented to Council in December. So, this year's monitoring should be more typical of a trading company, recognising that revenue earnings will still gradually be built up over time.
- 3.3. 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 rates key quarterly deliverables against the Business Plan.
- 3.4. **Cabinet should note that majority, (24 out of 28), of the deliverables for Quarter 1 are flagged as Green with the exceptions highlighted below.**
- 3.5. **Cash (flagged as Amber)** – Qualis reports as having a Cash balance at the end of the first quarter which is £335,766 (3%) lower than its £11.2 million target. In section 4 this is attributed to delays in securing the final (£10 million) commercial property investment from the balance of the £30 million funding loaned to Qualis in September 2020. Whilst Qualis targeted acquiring an acquisition before this date, it is important that an acquisition is carefully selected for fit, security and return and shouldn't be unduly pressured in order acquiring a property that sits outside of their acquisition strategy in order to meet business plan cash targets.
- 3.6. **Income and Expenditure (flagged as Amber)** – The Board report includes losses in the 1<sup>st</sup> quarter of £696,837 (analysed in the table in 3.8) compared to a business plan expectation of a loss of £283,486. The reason given being largely associated with accrued expenditure on development sites which Qualis is unable to charge to its Balance Sheet as Work in Progress until planning consent is given. Once Planning consent is awarded, this cost will be removed from the Profit and Loss account. Achievement of Planning consent has taken longer than anticipated. Should Planning consent not be obtained this cost will remain a charge in the Profit and Loss account.
- 3.7. **Roundhills and Pyrles Lane Delivery Plans to Board (flagged as Amber)** – The business cases missed the Board deadline by 18 days. This target was missed by a matter of days and is therefore not considered as a concern.
- 3.8. The table below sets out the actual net income and expenditure against that expected for each of the Qualis companies.

Qualis Company	Expected £	Actual £	Variance £
Group	20,500	20,003	-497
Commercial	10,981	-434,909	-445,890
Management	-132,157	-237,511	-105,354
Living	-182,811	-44,420	138,391
Total	-283,487	-696,837	-413,350

- 3.9. The Balance Sheet position, showing Fixed Assets and accumulated net worth of Qualis, is set out in the table below. Fixed Assets are identified as the Council charges these for security purposes against the loans provided. The Net Worth position reflects the accumulation and carry forward of set-up costs to be offset by future planned profits.

Qualis Company	Fixed Assets £	Actual £
Group	-	36,383
Commercial	-	-1,406,645
Management	78,293	-509,464
Living	20,793,122	-227,337
Total	20,871,415	-2,107,063

- 3.10. Delivery of the £238,039 surplus contained in the single year Business Plan will largely depend upon successfully obtaining planning consent for the Epping regeneration sites. In all other respects the Qualis Business Plan objectives are being met and showing good performance against the individual targets (sections 4 through to 10) on the Qualis Board report), including progress on bringing forward the redevelopment sites in the District.

#### 4. Change of Accounting Date

- 4.1. Qualis advised the Council that they wished to change their reporting date by 1 month, bringing it forward to the 30<sup>th</sup> September from the 31<sup>st</sup> October. This is considered a minor change and aligns better with the Council's budget preparation timetable and so has been agreed. As a consequence, the quarterly reporting cycle will also need to change to align to this revised date and so the next quarter's performance will be for only 2 months, covering February and March 2021. This will not affect the performance, only the dates it is reported.

#### 5. Resource Implications

- 5.1. The Epping Forest District Council Medium Term Financial Plan approved in February 2020 includes updated assumptions on the returns and income generated from Qualis.
- 5.2. The assumptions included are as follows;

Loan Purpose	Amount and Term	Interest Payments Per Annum £
Working Capital Loan	£5 million for 5 years	£225,000
Asset Purchase	£30 million 20 years	£1,800,000
EFDC Asset Purchase	£22 million 30 years	£1,605,000
Less EFDC Borrowing Costs		-£1,306,337

Net Receipts		£2,323,663
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- 5.3. These assumptions were made pre Covid-19 and the information that underpinned these has now changed. For example, interest rates are now lower and the market value of assets to be transferred has reduced on the latest valuation and taken longer to complete.
- 5.4. Both these factors will reduce the expected gains to Epping Forest District Council and therefore add to the Council's ultimate cost of Covid-19 during 2019/20. Revised assumptions, factoring in the delays resulting from Covid19, have been used in preparing the Councils Medium Term Financial Plan for 2021/22.

## **6. Legal and Governance Implications**

- 6.1. None contained within this report.

## **7. Safer, Cleaner and Greener Implications**

- 7.1. None.

## **8. Consultation Undertaken**

- 8.1. None

### **Background Papers**

Group Company Governance Document – Cabinet 6 February 2020