

Report to Stronger Council Select Committee

Date of meeting: 14th September 2021

**Portfolio: Finance, Qualis & Economic Development –
Cllr J. Philip**

Subject: Qualis Quarterly Monitoring Report – Q3 2020/21

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Democratic Services Officer: Adrian Hendry



Recommendations/Decisions Required:

To discuss this report and to make any comments or identify any actions the Committee would like the Qualis Portfolio Holder to consider.

1. Executive Summary

- 1.1. The Governance framework for Qualis, as agreed by Cabinet in February 2020, included the requirement that Qualis should report to Epping Forest District Council on its performance Quarterly.
- 1.2. This report presents the third Quarter's monitoring report for the Qualis trading year 2020/21 and covers the period from 1 October 2020 to 30 June 2021. Because of the fall of meeting dates this report will be considered by Stronger Council Select Committee one day after Cabinet considered the same paper. Comments made by the Select Committee will therefore be relayed directly to the Portfolio Holder.
- 1.3. Attached to this report as Appendix A is the Qualis Board monitoring report for Quarter 3, as has been presented to the Qualis Board.
- 1.4. Performance is 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).
- 1.5. **Noting the objectives flagged as Amber or Red and the explanations provided, Qualis has again performed in line with expectations during the third 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's consideration together with the commentary below from the Council's S151 officer.

3. Commentary on the Trading Performance

- 3.1. The Qualis first year was financially dominated by outgoings associated with its creation and set-up. The second year, however, shows a balance of income and expenditure with a small forecast profit targeted within the single year Business Plan presented to Council in December 2020. So, this year's monitoring is more typical of a trading company, recognising that revenue earnings will still gradually be built up over time.
- 3.2. 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.
- 3.3. **Cabinet should note that majority of the deliverables for Quarter 3 are flagged as Green with the exceptions highlighted below.**
- 3.4. **Income and Expenditure (Increased to Red)** – The Board report includes cumulative losses up to the end of the 3rd quarter of £1,106,614 (analysed in the table in 3.7) compared to a business plan expectation of a profit of £366,381. This is deterioration on the last quarter where the in-year losses stood at £473,551. However, the reason given is consistent and accepted and is 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 originally anticipated but now has a scheduled date set for the combined applications to be considered by the District Development Committee in September, having slipped back from July. Should Planning consent not be obtained this cost will remain a charge in the Profit and Loss account until permission is resolved. The delayed acquisition of the third commercial property also contributes to the combined loss and this is discussed further below. These two issues mask the continued improvement in Qualis Management revenues associated with the Housing Maintenance contract.
- 3.5. **Qualis Living (Flagged as Amber)** - The cash balance remains high as whilst Qualis has now secured the final (£10 million) commercial property investment from the balance of the £30 million funding loaned to Qualis in September 2020, the transaction was not completed until Quarter 4. The delay in securing the third commercial property is the reason that this is KPI is flagged as Amber.
- 3.6. The Board report (Appendix A, section 7.5) provides a useful analysis of how last year's £30 million commercial acquisition loan made to Qualis has been utilised.
- 3.7. 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 £ | Last Report £ |
|----------------|---------------|-------------|---------------|------------------|
| Group | 41,866 | 41,002 | -864 | 28,272 |
| Commercial | 29,105 | -1,127,364 | -1,156,469 | -745,770 |
| Management | 45,042 | 307,362 | 262,320 | 106,272 |
| Living | 250,268 | -327,614 | -577,882 | 137,675 |
| Total | 366,281 | -1,106,614 | -1,472,895 | -473,551 |

- 3.8. The Balance Sheet position, showing Fixed Assets and accumulated net worth of Qualis, is set out in the table below. Fixed Assets are individually 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 £ | Net Worth (Q3) £ | Last Report £ |
|----------------|-------------------|---------------------|------------------|
| Group | 48,758 | 57,382 | 44,652 |
| Commercial | - | -2,099,101 | -1,717,507 |
| Management | 69,353 | -45,528 | -246,681 |
| Living | 20,793,122 | -510,530 | -56,241 |
| Total | 20,911,233 | -2,597,777 | -1,964,777 |

- 3.9. 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 set out in 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 2021/22 Budget and Medium-Term Financial Plan approved in February 2021 included assumptions on the returns and income generated from Qualis.
- 4.2. The assumptions associated with the lending to Qualis are as follows;

| Loan Purpose | Amount and Term | Interest Payments Per Annum £ |
|---------------------------|------------------------|-------------------------------------|
| Working Capital Loan | £6 million for 5 years | £228,000 |
| Asset Purchase | £30 million 10 years | £1,200,000 |
| Construction Loan | £16 million | £560,000 |
| EFDC Asset Purchase | £16.8 million 30 years | £829,056 |
| Less EFDC Borrowing Costs | | -£728,000 |
| Net Receipts | | £2,089,056 |

- 4.3. It was expected that the Asset Purchase loan would be completed by 1st April 2021, but is still yet to complete, (although it is expected it is now imminent), due to delays associated with the legal documentation and title. These delays will reduce the lending margin earned by the Council in 2021/22, but it is expected that some of this will be recouped through earlier advances of the construction loan than the budget assumed.

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