

Report to the Cabinet

Report reference: C-003-2022/23

Date of meeting: 6th June 2022



**Epping Forest
District Council**

Portfolio: Finance – Cllr J. Philip

Subject: Quarterly Monitoring Report – Q2 2021/22

Responsible Officer: Andrew Small (07548 145665).

Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

To discuss this report and agree any actions required before its consideration by Council.

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 second Quarter's monitoring report for the Qualis trading year 2021/22 and covers the period from 1 January 2022 to 31 March 2022. Attached as Appendix A is the Qualis Board monitoring report for Quarter 2.
- 1.3. Because of the fall of meeting dates this report will be considered by Cabinet before Stronger Council Select Committee. If Stronger Council has any comments these will be relayed directly to the Portfolio Holder.
- 1.4. Performance is measured in the attached reports against the business plan targets for 2021/22. The Board report highlights performance against these using the recognised Red, Amber, Green reporting system (RAG).
- 1.5. Whilst Quarter 2 of Year 3 shows a continuing loss, as previously reported this is primarily associated with delays in achieving planning consent for Roundhills. Once planning consent is obtained this cost will be removed from the Profit and Loss account. Issues with finding suitable regeneration sites within the District are also contributing to the position. The Business Plan had assumed that rental income associated with new acquisitions would have been delivered prior to the end of Quarter 2. With these exceptions the position is broadly in line with the target.

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 consideration.

3. Commentary on the Trading Performance for Quarter 2, 2021/22 (Qualis Year 3)

3.1. The Qualis Board 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.

3.2. Cabinet should note that majority of the deliverables for Year 3 Quarter 2 are flagged as Green with the exceptions highlighted below.

3.3. **Cash in Bank (Continuing as Amber)** – Below the target of £6 million by £722,534 (£2,733,218 below target in Quarter 1). The lower cash position is attributed to delays in drawing down cash from the Council approved loan facility. The Business Plan had anticipated that £6 million of funding under the construction loan and £10 million of funding under the Development Loan would have been drawn down in Quarter 2 whilst delays meant these had not happened before the 31 March.

3.4. **Income and Expenditure (Reduced to Amber)** – The Board report includes cumulative losses up to the end of the 2nd quarter of £458,391 compared to a business plan expectation of a profit of £185,832. This is slight deterioration on quarter 1 where the in-year losses stood at £383,941. However, the reason given is consistent with previous reports and is accepted. The reason for the accumulated loss is largely twofold. Partly it is associated with accrued expenditure on the Roundhills development site, 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. The second issue is delays in sourcing suitable regeneration sites within the district.

3.5. **Qualis Commercial (Flagged as Amber)** – Whilst costs associated with the Epping Sites have now been moved to the Balance Sheet, the ongoing accrued costs associated with the Roundhills development must stay in the Profit and Loss account until Planning consent is achieved.

3.6. **Qualis Living (Flagged as Amber)** – Qualis has experienced delays in finding and investing in suitable local properties using the regeneration loan of £35 million that the Council has made available to it. As this process is taking longer than had been assumed in the Business Plan, it is impacting upon the forecast higher rental income.

3.7. The table below sets out the actual net income or expenditure against that expected for each of the Qualis companies.

Qualis Company	Expected £	Actual £	Variance £	Last Report Q1 (2021/22) £
Group	-32,219	23,825	56,044	14,472
Commercial	0	-428,906	-428,906	-1,906,105
Management	-30,248	48,319	78,567	137,269
Living	248,299	-101,629	-349,929	-711,889
Total	185,832	-458,391	-644,223	-2,466,253

- 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 for members' information 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 (Q2) £	Last Report Q4 (2020/21) £
Group	58,009	133,907	72,719
Commercial	0	-2,962,171	-2,848,737
Management	62,252	-441,474	-170,642
Living	30,391,903	-1,061,246	-470,912
Total	30,512,164	-4,330,984	-3,417,572

- 3.9. The reported deficit position now incorporates the capitalisation of Work in Progress on the Qualis development sites, thereby explaining the increase in the deficit carried forward. Qualis anticipates achieving a positive net worth position during their trading year 2024/25 – this coincides with the completion of their initial developments.

4. Resource Implications

- 4.1. The Epping Forest District Council Budget and Medium-Term Financial Plans partly rely on interest paid by Qualis for the loans the Council has given. Delays in obtaining Planning consent, issues around title and delays in completing the loan agreements meant that actual payments to the Council were lower than expected in 2021/22 and this was reported in the Epping Forest District Council Budgetary monitoring reports. The Budget for 2022/23 takes account of these factors.

- 4.2. Actual lending to Qualis at the year-end is follows;

Loan Purpose	Facility £ Millions	Term Years	Interest Rate %	Advanced at Quarter 1 £ Millions	Advanced at Quarter 2 £ Millions
Working Capital Loan	6.0	5	4.10	6.0	6.0
Asset Purchase	30.0	10	4.00	30.0	30.0
Construction Loan	68.0	30	6.00	6.0	11.0
EFDC Asset Purchase	16.8	30	4.94	14.0	14.0
Regeneration Loan	35.0	TBC	TBC	0	0
Net Receipts	155.8			58.0	63.0

- 4.3. At the end of Q2 the Council had loaned Qualis £63 million against a Council commitment of £155.8 million.
- 4.4. The drawdown of loans is generally taking longer than originally anticipated in both the Qualis Business Plan and in the Council's Budget and this impacts on the delivery of financial planning target. Further delays will reduce the lending margin earned by the Council in 2022/23, 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