

Report to the Cabinet

Report reference: C-014-2022/23
Date of meeting: 30th September 2022



Portfolio: Finance – Cllr J. Philip
Subject: Quarterly Monitoring Report – Quarter 3 2021/22
Responsible Officer: Andrew Small (07548 145665).
Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

Consider the report and agree any actions required.

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 2021/22 and covers the period from 1 April 2022 to 30 June 2022. Attached as Appendix A is the Qualis Board monitoring report for Quarter 3.
- 1.3. Stronger Council Select Committee considered this report on the 1st September and their comments have been passed to the Portfolio Holder and will be verbally relayed to this meeting.
- 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 3 of Year 3 shows a continuing loss, as previously reported this is primarily associated with delays in achieving planning consent for Roundhills and challenges with finding suitable regeneration property to acquire. Once planning consent is obtained for Roundhills accrued costs will be removed from the Profit and Loss account. Issues with finding suitable regeneration sites within the District are also contributing to the position as the Business Plan had assumed that rental income associated with new acquisitions would have been delivered prior to the end of Quarter 3. With these exceptions the position is broadly in line with the target.**

2. Introduction

- 2.1. The Qualis Shareholder agreement, as agreed by Cabinet in 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 3, 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 are flagged as Green with the exceptions highlighted below.**

3.3. **Cash in Bank (Continuing as Amber)** – Below the target of £6 million by £2,733,218, (£722,534 below target in Quarter 2). 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 30 June.

3.4. **Income and Expenditure (Reduced to Amber)** – The Board report includes cumulative losses up to the end of the 2nd quarter of £370,288 compared to a business plan expectation of a profit of £918,039. Whilst the cumulative loss has reduced slightly from the Quarter 2 position of £458,391 the variation from target has increased. 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 the 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. At this stage in the Business Plan Qualis had assumed that it would have drawn £10 million from the Council whilst, for the reasons given above, as yet this has not happened.

- 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 Q2 (2021/22) £
Group	8,195	100,109	91,913	56,044
Commercial	0	-489,112	-489,112	-428,906
Management	12,395	41,220	28,825	78,567
Living	897,449	-22,526	-919,975	-349,929
Total	918,039	-370,309	-1,288,349	-644,223

- 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 (Q3) £	Last Report Q2 (2021/22) £
Group	76,093	172,828	133,907
Commercial	0	-2,530,047	-2,962,171
Management	0	-127,019	-441,474
Living	45,144,403	-781,314	-1,061,246
Total	45,278,277	-3,265,552	-4,330,984

- 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 as follows;

Loan Purpose	Facility £ Millions	Term Years	Interest Rate %	Advanced at Quarter 2 £ Millions	Advanced at Quarter 3 £ 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	11.0	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			61.0	61.0

- 4.3. At the end of Q3 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