

# **Report to Cabinet**

**Report reference:** C-048-2022/23  
**Date of meeting:** 13<sup>th</sup> March 2023



**Portfolio:** Finance – Cllr J. Philip  
**Subject:** Quarterly Monitoring Report – Q1 (Year 4) 2022/23  
**Responsible Officer:** Andrew Small (07548 145665).  
**Democratic Services:** Adrian Hendry (01992 564246).

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## **Recommendations/Decisions Required:**

**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, included the requirement that Qualis should report to Epping Forest District Council on its performance Quarterly.
- 1.2. This report presents the first Quarter's monitoring report for the 4<sup>th</sup> Qualis trading year 2022/23 and covers the period from 30 September 2022 to 31 December 2023. Attached as Appendix A is the Qualis Board monitoring report for Quarter 1.
- 1.3. Performance is measured in the attached report against the business plan targets for 2022/23 contained within the Qualis 1 year Business Plan. Qualis has changed the style of their Board report highlighting financial performance issues within each section.
- 1.4. The unexpected and significant shift in economic factors occurring over the past 12 months continues to have a huge impact on the finances of the Council and this is also replicated on the plans of Qualis. Not all elements of the Qualis business model are impacted to the same extent. The trading companies of Qualis Group and Qualis Management are meeting or exceeding expectations, whilst the development and commercial arms continue to suffer as a result of current economic conditions. The greatest impacts are due to their dependency on borrowing, construction cost inflation, planning and movement in housing prices. These are addressed in the single year Business Plan recently presented to the Council, covering the period 1<sup>st</sup> October 2022 to 30<sup>th</sup> September 2023, but due to the still evolving operating environment Qualis are revisiting the budget forecasts for presentation to the Council for Q2 reporting.
- 1.5. Market conditions for new developments remain less favourable and uncertain with the likelihood of fewer opportunities to bring forward highly profitable schemes. In the face of this, both profit and dividend expectation from Qualis will need to be reduced

and delayed whilst the current economic uncertainty and volatility resolves itself over the short to medium term.

- 1.6. Qualis has reported a Q1 loss of £736,105, which is greater than forecast by £644,707 across all companies. This is attributed to economic conditions which are causing delays with acquisitions, planning and other factors. A proposed correction to the treatment of Work in Progress and review of Budget Forecast assumptions are expected in Q2 and we await the results of this work to understand the revised projected position for the current trading year.

## **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 1, 2022/23 (Qualis Year 4)**

- 3.1. The Qualis Board report attached at Appendix A is in a new format that makes the Qualis financial position, including assets and liabilities, clearer and easier to understand. The Board report presents the Balance Sheet and P&Ls but the Cash Flow explanation will be delayed until next Quarter whilst a new format is worked upon. With the exception of the Cash Flow statement, it meets the requirements placed upon Qualis within the Shareholder agreement. Regular financial reporting meetings take place between the Council and Qualis in between the quarterly reports to members. It also reports key financial performance indicators and key quarterly deliverables against the Business Plan.
- 3.2. **Cabinet should note that Qualis have reported missed financial targets for two entities and these are highlighted below.**
- 3.3. **Qualis Commercial (Negative variance on target of £137,732)** – This is partly attributed to a revised treatment of Work in Progress which is the basis for the one-year Business Plan. This is now being reviewed following a change in accounting advice. Other factors included accumulated costs on development schemes which are yet to receive planning permission.
- 3.4. **Qualis Living (Negative variance on target of £563,096)** – Income below target as a result of delays in acquiring property and completing schemes, associated with economic factors and planning delays.

- 3.5. The table below sets out the actual net income or expenditure against that expected in the one year Business Plan for each of the Qualis companies.

Qualis Company	Expected £	Actual £	Variance £	Last Report Q4 (2021/22) £
Group	-1,188	30,134	31,322	99,674
Management	62,121	86,921	24,800	65,317
Commercial	20,000	-117,732	-137,732	46,553
Living	-172,332	-735,428	-563,096	-1,990,294
Total	-91,398	-736,105	-644,707	-1,778,750

- 3.6. The Balance Sheet position, showing Total Assets and accumulated net worth of Qualis, is summarised in the table below. The detailed position is contained within the attached Board Report. The Net Worth position reflects the accumulation and carry forward of set-up costs and losses to be offset by future planned profits and also includes the potential deferred tax liability which will not crystallise until those profits are realised.

Qualis Company	Total Assets £	Net Worth (Q1) £	Last Report Q4 (2021/22) £
Total	£62,640,320	-4,600,365	-5,458,807

#### 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 all have an impact and can mean that actual payments to the Council vary below those expected in 2022/23. The Budget for 2023/24 recently approved by Council provides a contingency provision to smooth fluctuations caused by events outside of the Council's control.

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

Loan Purpose	Facility £ Millions	Term Years	Interest Rate %	Advanced at Quarter 4 2021/22 £ Millions	Advanced at Quarter 1 2022/23 £ Millions
Working Capital Loan	6.0	5	4.10	6.0	4.8
Asset Purchase	30.0	10	4.00	30.0	30.0
Construction Loan	68.0	30	6.00	11.0	14.3
EFDC Asset Purchase	16.8	30	4.94	14.0	14.3
Regeneration Loan	35.0	TBC	TBC	0	0
Net Receipts	155.8			61.0	63.4

- 4.3. At the end of Q4 the Council had loaned Qualis £63.4 million against a Council commitment of £155.8 million.

**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