

Report to Cabinet

Report reference: C-035-2023/24
Date of meeting: 18 December 2023



Portfolio: Finance, Qualis Client and Economic Development – Cllr J. Philip
Subject: Quarterly Monitoring Report – Q4 (Year 4) 2022/23
Responsible Officer: Andrew Small (07548 145665).
Democratic Services: Vivienne Messenger (01992 564243).

Recommendations/Decisions Required:

- (1) **Noting comments received from the Overview and Scrutiny Committee, 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 4th and Final Quarter's monitoring report for the 4th Qualis trading year 2022/23 and covers the period from 1 October 2022 to 30 September 2023. Attached as Appendix A is the Qualis Board monitoring report for Quarter 4 – effectively the year end position. This report has previously been considered by Overview and Scrutiny Committee on 21 November 2023.
- 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.
- 1.4. The Qualis group of companies was created by the Council to bring control back to the Council over the direction and style of development and over delivery of key services. Additionally, profits previously paid to, or retained by, third parties are now retained by the Council, significantly reducing the financial challenges faced by the Council at this time.
- 1.5. **The 4th Year of Qualis Trading brings to an end the creation and initial development phase of the Qualis Business Model, with Year 5 and beyond expected to see model maturity highlighted by a flow of income emerging from completed developments. This enables Qualis to reach self sufficiency in Financing and a move into profit, and consequently reduce accumulated losses generated up until this point. The New 4 Year Qualis Business Plan, also included on the Agenda, should be considered alongside this report in order to put the position reported here into context.**

- 1.6. Beyond the difficulties and challenges created by the economic factors previously reported, Qualis makes positive returns before interest charges in all companies but is not yet generating sufficient surplus to fully cover the interest costs.
- 1.7. As consistently reported throughout the year, Qualis Living has found achieving targets difficult and this is attributed to targets for the year being too optimistic given the economic conditions that have persisted. This is addressed in the new 4 Year Qualis Business plan.
- 1.8. **Despite the difficult trading conditions, the position still includes £3.348 million of interest payments made by Qualis to the Council, on which the Council nets approximately £2 million from the lending and this directly supports the Council's continued provision of valued services.**
- 1.9. Qualis has significantly improved the quality and ease of understanding of their Board reports for the Shareholders consumption to the point where the commentary in the cover report is now largely duplicating the content of the Board report provided. Consequently, elements of repetition, such as certain tables and narrative are now no longer included in this cover report and instead it focuses on key messages.
- 1.10. **Overall Qualis reports a Quarter 4 loss of £760,00, which is greater than forecast for the year by £910,000, across all companies. The loss is an improvement on the Q3 position by £100,000. The loss for the year is largely attributed to delays in completing the car park and receiving car park income and lower fees for the management of the EFDC assets, offset by a positive Tax adjustment of £676,000.**
- 1.11. Through the Shareholder, the Qualis Company structure was amended in September and all activities previously undertaken in Qualis Living and Qualis Commercial will continue in Qualis Commercial in order to streamline structures.

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 4, 2022/23 (Qualis Year 4)

- 3.1. The Qualis Board report attached at Appendix A has been developed by Qualis to make it more comprehensive, informative, and intelligible to the shareholder, in part mirroring the summary previously provided within the cover report. It has now been developed to the point where the detail no longer needs to be extracted and

summarised in the cover report as the key information is easily identifiable from the Board report itself. Consequently, the summary cover report has been reduced in length to remove duplication and instead will be used mainly to highlight issues or identify areas of disagreement or concern.

- 3.2. The key points identified are that trading position largely continues in line with the trends highlighted in previous Board reports, without major variation or exception. The trading losses for Qualis Living have decreased marginally this Quarter due to a positive Tax adjustment, but underlying losses continue to increase as delays in completing projects are factored in, most notably the car park.
- 3.3. The fees for managing the Council's commercial assets were also under that assumed in the Business Plan. This was due to the charging arrangement having not been agreed when the Plan was prepared. The annual results include lower expectations in this respect.
- 3.4. Qualis Living continued to make a deficit after interest charges throughout this trading year, but this was expected and broadly reflects that Qualis Living is still developing assets and has not yet reached the point where the developed assets are available for sale. After taking account of this, losses are still greater than forecast in the Business Plan and as reported consistently throughout the year, this is partly due to the continued difficult trading environment and partly due to overly ambitious targets set for the year; recognising that the two factors are interrelated. This is addressed in the updated Qualis Business Plan, which also appears on this Agenda.
- 3.5. Importantly, with the development on the former Condor site nearing completion, Year 5 of Qualis trading expects to recognise sale receipts from completed developments. This represents a major milestone in the Business Plan, with losses and debt expected to peak and then begin to reduce over time.
- 3.6. The value of Qualis assets, against which the Council's loans are secured remain broadly equal, as set out in the Tables 5.1 and 6.1 within Appendix A. This remains a critical shareholder test and will be regularly reported.
- 3.7. Qualis Net Worth has improved fractionally to a negative £6.2 million, reflecting the marginal improvement of the reported net loss from Q4.

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.

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