

Report to Cabinet

Report reference: C-012-2024/25

Date of meeting: 15th July 2024



**Epping Forest
District Council**

Portfolio: Commercial & Estates – Cllr Matthews

Subject: Qualis Quarterly Monitoring Report – 6 months transitional period to 31st March 2024

Responsible Officer: Andrew Small (07548 145665).

Democratic Services: Vivienne Messenger (01992 564243).

Recommendations/Decisions Required:

- (1) Consider the content of the report with particular emphasis on the ongoing monitoring 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 financial performance.

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 provide the Council with the Quarterly Management Accounts.

- 2.4. Qualis recently sought permission to align their reporting year end to that of Epping Forest District Council and this report covers the interim period between 30 September 2023 and 31 March 2024

3. Commentary on the Position as at 31 March 2024

- 3.1. The Qualis Board report attached at Appendix A provides a summary of the position agreed by the Qualis Board for presentation to the Council as Shareholder.

- 3.2. The key points identified are that the trading position largely continues in line with the trends highlighted in previous Board reports, without major variation or exception.
- 3.3. The trading losses for Qualis, which are concentrated in Qualis Commercial, have increased in this 6-month period, but by £298,000 less than expected. In total group losses increased by £877,000 over the 6-month period and this is consistent with the position expected at this stage within their development cycle.
- 3.4. The development schemes at Springwood Grove and Cartersfield are both nearing completion and will start generating income shortly. The profits from these schemes are expected to start decreasing accumulated losses, consistent with the position forecast in the 4 year Business Plan agreed last year.
- 3.5. Both Qualis Group and Qualis Property Solutions again made a surplus over this period, mitigating the position reported in Qualis Commercial. The table below sets out the respective positions.

Group	Full YR			Full YR		
	QGL £k	QPS £k	QCL £k	Group £k	Budget £k	Variance £k
Revenue	1,145	9,723	2,513	13,381	11,421	1,960
Expenditure	(1,091)	(9,358)	(2,063)	(12,513)	(11,132)	(1,381)
Moved to WIP	0		442	442	507	(65)
Surplus	54	364	892	1,310	796	515
Interest	0		(2,187)	(2,187)	(1,971)	(217)
Surplus/ (Deficit)	54	364	(1,295)	(877)	(1,175)	298

- 3.6. As reported to Cabinet in May 2024, the Qualis Accounts Audit as at 31 September 2023 included a downwards revaluation of Qualis commercial assets during 2022/23, linked largely to economic conditions. This loss has been taken to, and will be carried forward on the Qualis Balance Sheet, splitting trading losses from the downwards revaluations.
- 3.7. Whilst the market values have moved downwards, it is important to state that the income earnings from these assets remains stable or are increasing with good quality tenants.
- 3.8. Unlike the Council, where revaluations do not impact on its balances or reserves, all Private Sector companies are required to account for revaluations within their Profit and Loss Accounts and this does have a direct impact on the company's net worth. This is recognised in the form of a negative revaluation reserve which appears on the Balance Sheet. It should be highlighted that upwards revaluations also feed through the Profit and Loss account, potentially resulting in large upwards swings in retained profits and highlighting the susceptibility of the reported position to market movements.
- 3.9. The negative revaluation does not impact on the cash balances of Qualis (a non-cash adjustment) as it would only be realised if Qualis chose to dispose of these assets.
- 3.10. Recognising an elevated risk whilst Qualis works to address the deficit, Cabinet agreed a number of monitoring actions at its meeting in May.

3.11. The Qualis Group Balance Sheet as at the 31 March 2024 is set out below:

		£
Fixed Assets	Investment Assets	40,080,741
	Office Equipment Net Book Value	61,565
	Motor Vehicles Net Book Value	32,056
	Total Fixed Assets	40,174,362
Intangible Assets	Debtors Unpaid Share Capital	4
	Total Intangible Assets	4
Current Assets	Debtors Control Account	4,669,502
	Other Debtors and Prepayments	515,259
	WIP Project Costs	40,472,941
	Accrued Income	448,874
	Deferred Income	(446,070)
	Natwest Current Account	1,876,276
	Total Current Assets	47,536,783
Current Liabilities	Creditors Control Account	3,795,409
	Other Creditors and Accruals	1,430,309
	Total Current Liabilities	5,225,717
Total Assets Less Current Liabilities		82,485,431
Long Term Liabilities	Loans Received EFDC	100,577,500
	Loan Repayments	(6,268,495)
	Net EFDC Loans	94,309,005
	Provision for Deferred Tax	859,314
Total Long Term Liabilities		95,168,319
Net Assets		(12,682,888)
Capital Employed		
	Share Capital	4
	Profit and Loss Account	(6,590,510)
	Loss on Revaluations	(6,092,382)
Total Capital Employed		(12,682,888)

3.12. The updated Balanced sheet reports an Accumulated loss of £12.68 million compared to a loss of £11.8 million reported in the Final Audited version of the Accounts of Qualis for the period ending 31 September 2023. This represents an increase of £877,000, consistent with the accumulated Losses over the 6 month reporting period being Carried Forward.

4. Resource Implications

- 4.1. The Epping Forest District Council Budget and its Medium-Term Financial Plans partly rely on the interest margin paid by Qualis for the loans the Council has given. This equates to circa £2.3 million a year and is a vitally important income stream for the Council, allowing the continued provision of core services.

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