



MEETING: Qualis Board Meeting
DATE: 07/08/2024
TITLE: Finance Report to June 2024 – Q1
PRESENTED BY: Andy Howarth, Group Finance Director
Frances Malone, Finance Manager
ACTION: TO NOTE the contents of the report

1. Recommendation

1.1 This report is to review and note and no decisions are required.

1.0 Executive Summary

1.1 Group performance against the Business Plan will be updated after the end of Q1 when any known and agreed variations can be included.

1.2 A limited amount of progress was made at a joint workshop with the EFDC Cabinet in early June whereby a budget was agreed for planning activity relating to Brooker and Centric Parade. Anything that impacts the business plan will be reflected in the plan update.

1.3 The Group management accounting consolidated deficit for the period to June 2024 is £849m with a favourable variance to budget of £673k.

1.4 The financial position continues to reflect Qualis investment coupled with a corresponding debt drawdown.

1.5 Group assets and WIP are analysed at section 4.

1.6 Group debt as at the end of June of £98.6m is further broken down at section 5.

1.7 Appendix 1 provides a breakdown of the results by company.

1.8 Appendix 2 provides a detailed balance sheet.

1.9 Group Performance

- 1.10 The Group management accounting position at June 2024 is as shown below with a total consolidated deficit of £849k, with a favourable net variance to budget of **£673k**. The Sales budget included an assumption that the St John's site would be sold on to a developer in two tranches, the first of which was expected in June. This transaction was expected to be at a loss of £695k, which is now the main reason for the favourable variance to budget.

Income	Year to Date: June 2024			Full YR		
	Actual £k	Budget £k	Variance £k	Forecast £k	Budget £k	Variance £k
Sales Surplus	201	(695)	896	1,361	1,361	0
Revenue	6,125	6,417	(292)	25,671	25,671	0
Expenditure	(5,937)	(6,308)	371	(24,539)	(24,539)	0
Moved to WIP	4	291	(287)	507	507	0
Surplus	393	(295)	688	3,000	3,000	0
Interest	(1,200)	(1,200)	(0)	(4,905)	(4,905)	0
Tax provision	(42)	(26)	(16)	(104)	(104)	0
Surplus/ (Deficit)	(849)	(1,521)	673	(2,009)	(2,009)	0

- 1.11 The full year budget reflects the position outlined in the March Business Plan update, with a pessimistic view of the contribution from development schemes.
- 1.12 The Finance team are working with budget holders to reforecast the annual result based on Q1 performance and revised expectations for the year. This will be included in the next finance report to Board. The forecast will be updated to show the impact of recent changes to the development assumptions particularly with the impact from the latest St John's proposal and the revised project assumptions at Springwood Grove. It is expected that firmer details will be available by the end of August 2024.
- 1.13 The business plan will be updated during Q2 when we will have greater clarity on the St John's and Springwood Grove developments.
- 1.14 The Group balance sheet shows the impact of the September 2023 asset revaluation with the revaluation deficit shown separately in reserves. This reduction in value had not been anticipated when the Business Plan was prepared.
- 1.15 The financial position compared to March 2024 is shown below.

Financial Position	As at	
	Actual Mar-24 £k	Actual Jun-24 £k
Assets & WIP	80,647	83,380
Cash, Working Capital	1,838	2,556
Loan Balances	(94,309)	(98,608)
Provisions	(859)	(859)
Net Assets	(12,683)	(13,532)
I&E deficit	(6,591)	(7,439)
Revaluation deficit	(6,092)	(6,092)
Reserves	(12,683)	(13,532)

2.0 Assets analysis

2.1 Qualis investments shown on the balance sheet are included in the investment assets and Work in Progress lines which have a combined value of over £83m.

Property	Value, £
Investment Assets	40,986,696
Work in Progress	42,305,380
Total Assets	83,292,076

2.2 Work in Progress is disclosed in current assets and is treated for accounting purposes as stock or inventory which will be completed and sold.

2.3 The full breakdown by project is presented in the table below. The Investment Asset values shown in the table above reflect the September revaluation of the Birchwood, Greenfields and Wycke Hill properties and the movement of the completed Cottis Yard development from work in progress to assets.

2.4 In the month of June we have accounted for total unaccrued retention fees of £642k on schemes within WIP. This has arisen from retentions deducted from construction costs and is matched with a liability within creditors.

2.5 Interest that had been moved to WIP in prior periods has been allocated to active development schemes and is included in the values shown in the table below for Cottis, which is now complete and Springwood Grove.

2.6 The team and central costs accrued over the last three years are shown on the last line of the table and will be allocated across schemes in development when they complete. Costs that have accrued in months 1 & 2 have been reversed to the income statement as there is ongoing fee income from the Roundhills scheme offset some of these costs.

2.7 Amounts previously included in WIP for the Roundhills scheme have been released to the income statement and matched to the first instalment of income on this scheme.

Assets & WIP	June 2024	May 2024	Additions
Birchwood Building	10,950,000	10,950,000	0
Greenfields House	7,200,000	7,200,000	0
Wycke Hill	6,120,000	6,120,000	0
Cottis Yard MSCP	16,716,696	16,682,933	33,762
Springwood Grove	15,074,335	14,515,049	780,433
Cottis Lane B	1,396,000	1,388,000	8,000
St John's Road	13,450,676	13,137,289	313,387
Roundhills		2,477,568	-2,477,568
Pyrles Lane	399,832	395,957	3,875
Hemnal Street	524,178	524,178	0
Cartersfield	6,975,739	6,849,456	126,283
Centric Parade	18,355	18,355	0
Other schemes	323,397	245,070	78,328
Dev Team Costs	3,921,721	4,066,859	-145,138
Total Assets	83,292,076	84,570,713	-1,278,637

1.16 **Loans**

2.8 The loan facilities are designed to enable borrowing in QGL which can then be on-leased to the other group companies. The Group debt is effectively being carried within QGL and the loan schedule is as follows.

Loans Summary by Company	Term	Facility	Drawn	Repaid	Balance	Available
		£m	£m	£m	£m	£m
Working Capital Loan	5	6.0	8.5	(3.5)	5.0	1.0
Investment Asset Purchase	10	30.0	30.0	-	30.0	-
Development Advance Loan	5	6.0	6.0	(0.4)	5.6	0.4
Construction Loan	30	97.0	45.8	(1.5)	44.3	52.7
EFDC Asset Purchase	30	14.8	14.8	(1.1)	13.7	-
EFDC Asset Purchase (Hemnal)	30	2.0	-	-	-	2.0
Total Loans		155.8	105.1	(6.5)	98.6	56.1

2.9 The Working Capital loan is a revolving credit loan.

2.10 The Investment Asset Purchase Loan of £30m correlates to the Investment Assets in the first three lines of the asset analysis in Paragraph 4.5 above.

2.11 The EFDC Asset Purchase Loan represents the initial purchase of the EFDC development sites.

2.12 The Development Advance Loan and the Construction Loan combined facility is £103m and these loans have funded the development of the development assets as itemised in Paragraph 4.5 above.

1.17 Appendix 1: Group and Company Financial Performance

1.18 Consolidated Group

1.18.1 The Group management accounting position as at the end of June is as shown below with a total consolidated deficit of £849k, with a positive net variance to budget of £673k.

1.18.2 QCL development management costs continue to be transferred to Work in Progress (WIP) for ongoing schemes but will be absorbed against fee income where appropriate.

1.18.3 Group interest costs were as expected, but no finance costs have yet been capitalised.

Group	YTD			YTD		
	QGL £k	QPS £k	QCL £k	Group £k	Budget £k	Variance £k
Sales Surplus	-	-	201	201	(695)	896
Revenue	539	4,675	911	6,125	6,417	(292)
Expenditure	(514)	(4,508)	(915)	(5,937)	(6,308)	371
Moved to WIP			4	4	291	(287)
Surplus	26	167	200	393	(295)	688
Interest	0	-	(1,200)	(1,200)	(1,200)	(0)
Tax provision	0	(42)		(42)	(26)	(16)
Surplus/ (Deficit)	26	125	(1000)	(849)	(1,521)	673

1.19 Qualis Group Ltd

1.19.1 The QGL surplus of £26k is generated from intra-group transactions which reflect the recharge of central costs to the group companies and should not show any significant variances.

Qualis Group	YTD			Full YR		
	Actual £k	Budget £k	Variance £k	Forecast £k	Budget £k	Variance £k
Revenue	539	651	(112)	2,609	2,609	0
Expenditure	(514)	(620)	106	(2,484)	(2,484)	0
Net Surplus	26	31	(5)	124	124	0

2.0 Qualis Property Solutions Ltd

2.0.1 There has been a variance in activity resulting in more favourable variances in expenditure than in income.

2.0.2 Performance within the different workstreams has been variable, but the overall performance has been effective and QPS has delivered a surplus on the programme that is better than budget.

Qualis Property Solutions	YTD			Full YR		
	Actual £k	Budget £k	Variance £k	Forecast £k	Budget £k	Variance £k
Revenue	4,675	4,851	(177)	19,406	19,406	0
Expenditure	(4,508)	(4,755)	248	(18,979)	(18,979)	0
Tax provision	(42)	(26)	(16)	(104)	(104)	0
Net Surplus	125	70	55	323	323	0

2.1 Qualis Commercial Ltd

2.1.1 Income is stable in most areas except for car park income, which has been balanced with favourable expenditure variances. Development fee income has reduced the team costs charged to WIP.

Qualis Commercial	YTD			Full YR		
	Actual £k	Budget £k	Variance £k	Forecast £k	Budget £k	Variance £k
Sales Surplus	0	(695)	695	1,361	1,361	0
Development Fees	201	0	201	0	0	0
Revenue	762	914	(152)	3,657	3,657	0
Expenditure	(767)	(933)	166	(3,075)	(3,075)	0
Moved to WIP	4	291	(287)	507	507	0
Surplus before Interest	200	(423)	623	2,449	2,449	0
Interest	(1,200)	(1,200)	(0)	(4,905)	(4,905)	0
Net Surplus	(1,000)	(1,623)	623	(2,456)	(2,456)	0

2.1.2 The budget for 2024/25 included performance fees of £100k on the commercial portfolio but fees payable of £165k have already been agreed and will be released after Q1.

2.1.3 Loan interest represents the full cost experienced but no costs have been moved to capital projects in this financial year.

2.1.4 The development fee line includes transactions related to the Roundhills scheme and will show the net fees earned on the project.

2.1.5 The Sales budget included an assumption that the St John's site would be sold on to a developer in two tranches, the first of which was expected in June. This initial transaction was expected to be at a loss of £695k, which is now the main reason for the favourable variance to budget. Current plans for the scheme are now expected to generate a surplus.

2.1.6 Sales at Springwood Grove will be reforecast when the completion programme is finalised.

2.3 Appendix 2: Group Balance Sheet

All Company Combined Balance Sheet as of 30th June 2024

		£
Fixed Assets	Investment Assets	40,986,696
	Office Equipment Net Book Value	57,511
	Motor Vehicles Net Book Value	29,989
	Total Fixed Assets	41,074,196
Intangible Assets	Debtors Unpaid Share Capital	4
	Total Intangible Assets	4
Current Assets	Debtors Control Account	2,067,623
	Other Debtors and Prepayments	523,614
	WIP Project Costs	42,305,380
	Accrued Income	123,509
	Deferred Income	(826,691)
	Bank Accounts	6,008,213
	Total Current Assets	50,201,648
Current Liabilities	Creditors Control Account	1,790,900
	Other Creditors and Accruals	3,549,123
	Total Current Liabilities	5,340,022
Total Assets Less Current Liabilities		85,935,825
Long Term Liabilities	Loans Received EFDC	105,077,500
	Loan Repayments	(6,469,333)
	Net EFDC Loans	98,608,167
	Provision for Deferred Tax	859,314
Total Long Term Liabilities		99,467,481
Net Assets		(13,531,656)
Capital Employed		
	Share Capital	4
	Profit and Loss Account	(7,439,278)
	Loss on Revaluations	(6,092,382)
Total Capital Employed		(13,531,656)