

Report to Cabinet

Report reference: C-022-2024-25
Date of meeting: 2 September 2024



Portfolio: Commercial & Estates – Cllr Matthews
Subject: Qualis Quarterly Monitoring Report – Quarter 1 2024/25
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 1st Quarter of 2024/25 covering the period between 1 April 2024 and 30 June 2024.

3. Commentary on the Position as at 30 June 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. This is the first Quarter of a new trading year and sets out 2024/25 forecast targets. These again expect a trading loss on development activity ahead of income beginning to be received from the completed sales towards the end of the year. Thereafter, the forecast is for profits from sales to reduce the losses that have accumulated to date.
- 3.3. In the first Quarter trading losses for Qualis, which are entirely concentrated in Qualis Commercial, are reported as £849,000, these are £673,000 lower than expected for the period. In total, group losses for the year are expected to increase to £2,009,000 over the full trading year and this is consistent with the position expected at this stage within their development cycle.
- 3.4. Despite some temporary delays, the development schemes at Springwood Grove in Epping and Cartersfield in Waltham Abbey are both nearing completion and will start generating income. The profits from these schemes were always assumed to be a turning point in the Business Plan model which would see accumulated losses beginning to decrease.
- 3.5. It is expected that Forecasts and the Business Plan will be actively updated at Q2 to take account of latest assumptions around delivery. The position will be closely monitored to see if it remains on track following the latest revision.
- 3.6. Both Qualis Group and Qualis Property Solutions again made a surplus over this period, mitigating the position reported by Qualis Commercial. The table below sets out the respective positions.

Group	Full YR			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

- 3.7. Qualis experienced a downwards revaluation of commercial assets at their year-end last September. This is now shown on their Balance Sheet and carried forward until realised, or until the assets increase in value. In the short term, it will not be realised unless the Assets are sold but continues to represent a financial risk as in the event of sale the assets are expected to realise less than the value of loans borrowed against them.
- 3.8. The value of Qualis Assets and Work in Progress stands at £83.3 million at the end of June against Council lending to Qualis of £98.6 million.
- 3.9. Recognising an elevated risk, whilst Qualis works to address the deficit, Cabinet agreed a number of monitoring actions at its meeting in May.
- 3.10. The Qualis Group Balance Sheet as at the 31 March 2024 is set out below:

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)

3.11. The updated Balanced sheet reports an Accumulated loss of £13.53 million compared to a loss of £12.68 million reported in the last monitoring report for the period ending 31 March 2024. This represents an increase of £849,000, consistent with the accumulated trading losses reported in the year to date.

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