

Report to the Cabinet

Report reference:

C-022-2020/21

Date of meeting:

14 September 2020



**Epping Forest
District Council**

Portfolio: Commercial and Regulatory Services – Cllr A. Patel

Subject: Qualis Quarterly Monitoring Report – Q1 & Q2 2019/20

Responsible Officer: Andrew Small (07548 145665).

Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

To 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, set the requirement that Qualis should report to Epping Forest District Council on its performance Quarterly.
- 1.2. This report presents the first two quarters of reporting information for consideration by the Cabinet.
- 1.3. Attached to this report as Appendix A is the monitoring report for Quarter 1 and 2 as prepared and agreed by the Qualis Board on 30 July 2020.
- 1.4. The key message for Cabinet is that Qualis has been actively engaged over the first 2 quarters in the set-up phase of its operation and until the transfer of assets, services and the loan facility is completed the performance monitoring will not reflect normal day to day trading activity.
- 1.5. **Given the point above and noting the impact of Covid19 on all Council activities, Qualis has performed in line with expectations.**
- 1.6. In accordance with the commitment given to Council, this report represents the first of what will now be a regular sequence of Quarterly performance reports. For the purposes of transparency this report also sets out the dates for Cabinet and Council consideration of future Qualis Quarterly monitoring reports through the remainder of this Council year.

2. Introduction

- 2.1. The Qualis Shareholder agreement, as agreed by Cabinet on 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 first two Quarters’ Management Accounts for the Council’s consideration. Production of the first two quarters took longer than original envisaged as Qualis has been focused on its initial set-up and the initiation phase of its Business Plan and all things have been impacted by Covid-19.

3. Commentary on the Trading Performance

- 3.1. The first few months of operation are non-typical in that Qualis needs to secure finance and acquire assets and services to manage before it can trade. Until this has been achieved Qualis will only be incurring cost with no income or assets to offset them against and so these Management Accounts are not representative of planned returns.
- 3.2. It should be stressed that this was expected and allowed for within the Qualis Business Case and the Council has signed this off. Once set-up and initiation work are completed it is expected that the trading activity and management accounts of Qualis should look like more typical trading accounts, (recognising that the business operation of Qualis will still need to be built up over time).
- 3.3. The Qualis report attached at Appendix A represents the requirements placed upon Qualis within the Shareholder agreement. The Board report presents the Balance Sheets, P&Ls and a Cash Flow explanation. It also RAG rates key quarterly deliverables against the Business Plan, (the Business Plan is attached as Appendix C to this report for members’ information).
- 3.4. **Cabinet should note that all deliverables are flagged as Green, with the key exception of agreeing the loan finance from EFDC to Qualis.**
- 3.5. The Covid-19 pandemic has had an impact on the speed at which set-up and initiation could progress and, (as reported in the Qualis Management Accounts for Quarter 1 and 2), agreeing the loan document has taken longer than originally expected on the part of EFDC and Qualis. This delay creates a consequential impact on both the Qualis Business Plan and the EFDC budget. The main contributory factors being;
 - Key Staff (Qualis and EFDC) being focused on Covid19 response
 - Volatility in the asset market which needed time to settle
 - Uncertainty in the capital markets impacting on financing rates
- 3.6. It is recognised that securing loan finance and the sale of the agreed Epping Forest development sites are pivotal to the delivery of the business plan and so every effort is being made by EFDC and Qualis to catch-up the time lost due to Covid-19.

- 3.7. The other consequence of these delays is a slower rate of spending compared to the Business Plan. The table below sets out the actual expenditure against that expected for each of the Qualis companies.

Qualis Company	Expected £	Actual £	Variance £
Group	547,670	526,499	-21,171
Commercial	548,654	269,470	-279,184
Management	48,000	30,021	-17,979
Living	59,191	30,021	-29,170
Total	1,203,515	856,011	-347,504

- 3.8. Whilst the delay in agreeing the loan finance reduces the rate at which cash is spent, until the loan finance is secured and assets either transferred and purchased any spending is doing little to achieve the Business Plan objectives and this emphasises the need to complete the capitalisation of Qualis at the earliest opportunity.
- 3.9. In all other respects the Business Plan objectives against which Qualis's performance is measured are on track, including progress on bringing forward the redevelopment sites in the District.

4. Consideration and Scrutiny of Future Qualis Reports

- 4.1. The Shareholder Agreement and Governance arrangement, agreed by Cabinet in February 2020, set out the decision-making framework for Qualis and the ways in which the Council can influence or control Qualis's activities in its capacity as Shareholder.
- 4.2. Broadly, the principal control will be through the approval of the annual Business Plan. Qualis is required to present its proposals each year within a proposed Business Plan and only if the Council agrees this can Qualis implement the proposals contained within it. This represents the critical control over the activities of Qualis and appropriate and detailed consideration should be given to the sign-off accordingly.
- 4.3. If Qualis wishes to undertake an activity during any year that was not included within the agreed Business Plan then under the 'Reserved Matters' part of the Shareholder Agreement it must ask for the Council's permission first. The full list of reserved matters was published in Schedule 2 of Appendix 1 in the report on Qualis to Cabinet on 6 February 2020.
- 4.4. Matters considered to be 'Reserved' to the Shareholder include issues such as;
- diluting the Council's control,
 - transfer of any part of the business to another body
 - distributing profits outside that agreed
 - allowing its assets to be charged by a third party
 - Winding the company up
 - Or generally acting outside of the approved Business Plan
- 4.5. The construction of the shareholder agreement gives the Council considerable assurance that Qualis can only operate within the mandate given to it by Epping

Forest District Council and for any matter outside of this, it must seek the Council's express authority.

4.6. The Report to Cabinet in February 2020 further set out the following;

- The Section 151 Officer will act in accordance with already sanctioned, business case, budget and loans already agreed or approved by the Cabinet or delegated authorities to the s151 officer (both generally and in its capacity as Shareholder's Representative).
- The Shareholder Representative / the s151 officer will also bring to the attention of the Cabinet any significant issue or deviation from these approvals on the precautionary principle.
- Any issue of concern or requiring a decision beyond the parameters of approvals previously provided by Cabinet and Council to the s151 Officer (in its capacity as Shareholder's Representative the Section 151 Officer will:
 - Firstly, brief the Leader
 - Secondly, if requested set out the issue and decision to Cabinet or Full Council for approval in line with the mandates of the existing EFDC Constitution

4.7. To streamline the approval process and not un-necessarily slow down the decision - making process of Qualis on routine matters (thus undermining one of the key purposes for which Qualis was created), the Section 151 will exercise a graduated approval methodology, consistent with the statement above and the Council's scheme of delegation to officers.

4.8. For members' clarity the decision-making process will generally follow the rules below;

- The Section 151 officer will action any matter that is approved in the business plan agreed by the wider Council, deal with day to day securitisation and land matters, loan administration and any financial transaction approved within a defined Epping Forest Budget heading;
- As agreed above, for matters that either sit outside of the previous bullet point, the current approved Business Plan or for Reserved Matters the Section 151 will firstly consult with the Leader and the appropriate Portfolio Holder and then in accordance with the Council's constitution agree on the appropriate decision-making body.
- Decisions which do not fundamentally change the purpose, control or direction of Qualis, together with funding decisions (provided these sit within the Council's approved budget framework) will generally be referred to Cabinet.
- Those decision which fundamentally change the objectives or control of Qualis, or funding decision which do sit within the approved budget framework, will be matters for Council to decide.

4.9. Once the Business Plan is agreed, the Council monitors delivery through the Quarterly Monitoring reports. This provides the opportunity to monitor progress and to receive assurance that the finances of Qualis are as expected.

- 4.10. As already explained, the first two quarters monitoring reports were delayed as the focus was on set-up and establishing the processes to provide the required information to the Council.
- 4.11. Future Quarterly reports will now be produced in accordance with Qualis Board meeting and the Council's Committee timetable.
- 4.12. To aid transparency, a timetable of which reports will be produced for consideration when is attached as Appendix B for the remainder of this Council year.

5. Resource Implications

- 5.1. The Epping Forest District Council Medium Term Financial Plan approved in February includes assumptions on the returns and income generated from Qualis.
- 5.2. The assumptions included are as follows;

Loan Purpose	Amount and Term	Interest Payments Per Annum £
Working Capital Loan	£5 million for 5 years	£225,000
Asset Purchase	£30 million 30 years	£1,800,000
EFDC Asset Purchase	£22 million 30 years	£1,605,000
Less EFDC Borrowing Costs		-£1,306,337
Net Receipts		£2,323,663

- 5.3. These assumptions were made pre Covid-19 and the information that underpinned these has now changed. For example, interest rates are now lower and the market value of assets to be transferred has reduced on the latest valuation.
- 5.4. Both these factors will reduce the expected gains and therefore add to the Council's ultimate cost of Covid-19.
- 5.5. The actual reduction will depend on the date borrowing is taken and the loans made to Qualis. Cabinet will be updated when this is known.

6. Legal and Governance Implications

- 6.1. None contained within this report.

7. Safer, Cleaner and Greener Implications

- 7.1. None.

8. Consultation Undertaken

- 8.1. None

Background Papers

