



Qualis Group

Incorporating, Qualis Group, Qualis Living, Qualis Management, Qualis Developments

Paper Ref: QG/20/15

Finance and Performance Monitoring Quarterly Report

**1st November 2019 – 31st January 2020
1st February 2020 – 30th April 2020**

Subject: Finance and Performance Monitoring

Author: Nick Dawe, Qualis Finance Director (interim)

Decision Required: To approve the report.

- 1. To agree that this report should be passed to Epping Forest District Council in line with the shareholder agreement.**
- 2. To support the key actions detailed in Section 8 or this report.**
- 3. To note that the third quarter report, 1st May 2020 – 31st July 2020 will be available at the Qualis August Board Meeting.**



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1. Introduction

- 1.1 The Qualis Group Board receives at its informal weekly update reports on key financial and operational matters. On a monthly basis at the formal Qualis Group Board Meetings more detailed papers are presented on financial and operational matters as circumstance dictate.
- 1.2 In line with the share holder agreement, and to reflect Qualis Group's needs, a quarterly Finance and Performance Report will be produced, that tracks the success of the Group against the originally agreed Qualis Group Annual Business Plan and Annual Budget.
- 1.3 This formal monitoring will take into account any Board approved amendments to the Business Plan and Annual Budget.
- 1.4 The report will usually be produced quarterly and be considered by the Qualis Board the month after the reporting period covered by the report.
- 1.5 In view of the first quarter being a period of basic set-up activities following company registration in October 2019, this report covers both quarters one and two.

2. Key Performance Indicators

- 2.1 The key performance indicators set-out below are those proposed to be used for monitoring purposes in the future. They are top level indicators of the financial health and operation delivery of the Qualis Group.
- 2.2 Major exceptions are reported in detail at Sections, 3, 5, 6 for finance and Sections 7. 8 and 9 for operations.
- 2.3 Further detail is available on request and/or already exist in the form of detailed Qualis reports and minutes.



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2.4 In line with standard practice, the following colour coded performance flags are used:

Colour	Overall Performance	Detailed Measure
Cyan	Cyan, exceptional performance	For finance; over twice the expected figure, for operations, over one month ahead of target delivery
Green	Green, good performance	For finance; positive performance up to twice the expected figure, for operations, up to one month ahead of target delivery
Amber	Amber, poor performance but will be remedied next quarter	For finance; negative performance variance of between 5% and 10% of the expected figure, for operations, one and three months behind target delivery
Red	Red, poor performance but will be remedied in two further quarters	For finance; negative performance variance of between 5% and 10% of the expected figure, for operations, one and three months behind target delivery
Black	Black, poor performance requiring immediate board level intervention	For finance; negative performance variance in excess of 10% of the expected figure, for operations, over three months behind target delivery



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2.5 Direction of travel indicators

These will be: + better than last quarter, - worse than last quarter, = as last quarter.

2.6 Key Performance Indicators: Finance

KPI	Measure	Target £	Actual £	
Cash	Cash held by Qualis Group of companies, target versus actual			=
Income and Expenditure	Total income and expenditure position of Qualis Group of companies, target versus actual			=
Balance Sheet	Net balance sheet worth of Qualis Group of companies, target versus actual			=

2.7 Key Performance Indicators: Operations

KPI	Measure	Target	Actual	
Qualis Commercial	Delivery to plan of Epping sites (at pre-planning submission stage)	Secure Planning Performance Agreement April	Secured	=
Qualis Commercial	Delivery to plan Waltham Abby Roundhills site (in early stages of review)	No action Quarter 2	Not applicable	
Qualis Commercial	Delivery to plan Debden Pyrles Lane site (in early stages of review)	No action Quarter 2	Not applicable	
Qualis Management	Transfer of Housing Maintenance Service	Various TUPE and set-up actions concluded by end of May	Achieved	=



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Qualis Management	Review of potential for other service additions and transfers	Secure consultants for review	Achieved	=
Qualis Living	Obtain up to £30m of other asset purchases from market to provide positive cash flow	Market search as no funding available until August 2020	Market searches in train and evaluation and portfolio approach agreed	=
Qualis Group	Input into North Weald Master Plan options and assessments	Re-launch master plan exercise with consultants	Achieved	=

2.8 Performance Overview

Satisfactory and expected operational progress has been achieved in quarter's one and two with financial performance mirroring this operational delivery.

3. 2019/20 Qualis Business Plan and Amendments

3.1 The Qualis Business Plan and Budget was initially taken to Epping Forest District Council as the shareholder and formally approved by the Qualis Group Board in February 2020. The initial key financial and operational expectations for the first year of operation for the Qualis Group were as follows:

Expectation (1 st November 2019 – 31 st October 2020)	Detail
Loan agreements confirmed with EFDC,	£120m, (consisting of £5m working capital, £30m asset purchase from market, £85m asset purchase from EFDC and construction finance). All to be agreed ideally by 30/04/2020 and no later than the 31/05/2020.



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Loan draw downs in Qualis Year 1	<p>£75m, (consisting off £5m working capital, £30m asset purchase from market, and £40m of the £85m covering asset purchases from EFDC, fees and charges and the first call on construction finance).</p> <p>For Qualis Quarter 1 and Quarter 2, £57m, (consisting of; £5m draw down working capital, £30m asset purchase from market, £22m asset purchase from EFDC. Balance for first financial year to be drawn by 30/09/2020).</p>
Loan and/or financing and partnership agreements from other sources	None
Income and expenditure position <u>Q1 and Q2</u> for Qualis Group	Net Income and costs before internal recharges and interest of £547,670.
Income and expenditure position <u>Q1 and Q2</u> for Qualis Commercial (including project fees and expenses before creation of individual development companies)	Net Income and costs before internal recharges and interest of £191,821.
Income and expenditure position Q1 and Q2 for Qualis Management	Net Income and costs before internal recharges and interest of £48,000. This is for the project manager inly. All other set up costs incurred by EFDC and recovered from Qualis over 5 years commencing October 2020.
Income and expenditure position <u>Q1 and Q2</u> for Qualis Living	Net Income and costs before internal recharges and interest of £59,191.
Final delivery i.e. completion, of Epping sites by Qualis Commercial	Last project, Hemmell Street, completes in 2025/26
Final delivery of Waltham Abbey Roundhills site by Qualis Commercial	To be completed in 2022/23
Final delivery of Debden Pyrles Lane site by Qualis Commercial	Not included in initial plan



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Operational start date after transfer of Housing Maintenance Service	Operational from 1 st October 2020
Assets brought from market for income earning potential	£30m worth ideally by the 31/05/2020

3.2 The expectations have been reviewed at the end of Quarter 2 reflecting Board approvals, timing changes and review of employment dates and cost issues with the following changes to the initial expectations being recorded (items that are not changed are not listed). **All reporting will be against amended targets if the original target has been changed:**

Revised Expectation (1 st November 2019 – 31 st October 2020)	Detail
Loan agreements confirmed with EFDC	Same value but later agreement dates by request of EFDC, 31/07/2020
Loan draw downs in Qualis Year 1	Same values but later dates by EFDC requests with working loan, asset purchase from market of £30m and loans to support land purchases from EFDC of £20m now taking place by 31/07/2020.
Income and expenditure position full year for Qualis Group	Being reviewed for Quarter 3, where a reduced net cost is expected.
Income and expenditure position full year for Qualis Commercial	Being reviewed for Quarter 3, where a reduced net cost is expected.
Income and expenditure position full year for Qualis Management	Being reviewed for Quarter 3.
Income and expenditure position full year for Qualis Living	Being reviewed for Quarter 3, where a reduced net cost is expected.
Final delivery of Epping sites by Qualis Commercial	Being reviewed for Quarter 3 where a different delivery profile of sites will be proposed.
Final delivery of Waltham Abbey Roundhills site by Qualis Commercial	Being reviewed for Quarter 3



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Final delivery of Debden Pyrles Lane site by Qualis Commercial	Being reviewed for Quarter 3
Assets brought from market for income earning potential	Still £30m in total by the end of year, though purchases are unlikely to commence before August 2020.

4. Cash Flow Summary

- 4.1 The Qualis Group of companies was established on a highly leveraged basis, i.e. supported by loans from Epping Forest District Council and not by equity investment. It should be noted that EFDC has the first option of providing loans to the Qualis Group of companies provided these loans are at market rate.
- 4.2 In practice the margin paid by Qualis on all its planned loans covers all EFDC's general development costs that are now envisaged.
- 4.3 This approach provided start-up security for Qualis, especially as the Covid 19 has distorted the money markets, whilst giving EFDC an income on the additional margin it charges on loans over and above the rate it can secure money for itself. This approach also in line with addressing "state subsidy" concerns.
- 4.4 The draw-back of this approach to Qualis is that it makes asset purchases and construction projects to the Qualis Group of companies marginally more expensive than would otherwise be the case.
- 4.5 As originally envisaged (at the end of quarter two), the Qualis Group of companies would have secured and drawn down loans from EFDC as follows: £5m working capital, £30m asset purchase from market and £22m to purchase Epping assets from EFDC.
- 4.6 At the end of May, EFDC have forwarded two working capital loans of £500,000 to the Qualis Group of Companies. The original plan was by this time a working capital loan of £5m an asset purchase from market loan of £30m and asset purchase from EFDC loan of £22m would have been advanced.
- 4.7 To date, the late agreement of loans has reduced the in-year costs to Qualis without impacting on activity in general or progressing the Epping schemes. On the later case fees that will eventually be charged to the development loan have been covered by the working capital loan. However, when Qualis wants to purchase assets from the market rapidly and decisively use its covenant of available finance the loans will need to be in place with the 31st July 2020 being the new target date.



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4.8 EFDC loan income receipts from the Qualis Group of companies have as a result reduced as have the range of developments taking into account Covid 19 uncertainties.

5 Balance Sheet Summary

4.1 Reflecting the leveraged position of Qualis and the fact that income earning assets have yet to be purchased and the Housing Maintenance Service has yet to transfer. Please note that these are the interim balance sheets pending a review of the income and expenditure position and the finalisation of loans.

4.2 Qualis Group

		Actual £	Actual £
Assets		0	
Current Assets		866,090	
Current Liabilities		392,589	
Current Assets Less Current Liabilities			473,501
Long Term Assets			
Long Term Liabilities			1,000,000
Total			-526,498
Profit and Loss Account			-526,498

4.3 Qualis Commercial

		Actual £	Actual £
Assets		0	
Current Assets		173,263	
Current Liabilities		2,183	
Current Assets Less Current Liabilities			171,080
Long Term Assets			
Long Term Liabilities			402,000



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Total			-230,920
Profit and Loss Account			-230,920

4.4 Qualis Management

		Actual £	Actual £
Assets		0	
Current Assets		-22,885	
Current Liabilities		-5,456	
Current Assets Less Current Liabilities			-17,429
Long Term Assets			
Long Term Liabilities			0
Total			-17,429
Profit and Loss Account			-17,429

4.5 Qualis Living

		Actual £	Actual £
Assets		0	
Current Assets		54,240	
Current Liabilities		5,209	
Current Assets Less Current Liabilities			49,032
Long Term Assets			
Long Term Liabilities			25,000
Total			24,032



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Incorporating, Qualis Group, Qualis Living, Qualis Management, Qualis Developments

Profit and Loss Account			24,032

5 Income and Expenditure Summary

5.1 The oncome and expenditure summary for the individual companies that form the Qualis Group of companies is summarised below. Noting that the figures are cumulative to the end of Quarter 2 and exclude internal recharges, loans and other amendments that will be shown from Quarter 3:

5.2 Qualis Group

	Target Cumulative Q1 and Q2 £	Cumulative Actual £	Variance £
Income	0	0	
Expenditure	547,670	526,499	-21,171
Net +Profit / -Loss	547,670	526,499	-21,171

Key issues to note:

- Agency premium of interim Directors is budget pressure of £141,058 for 6 months.
- Above overspend offset by Board vacancies and less than planned for cost of seconded staff
- In Q3 to note some of the expenditure will move through the other companies.

5.3 Qualis Commercial



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	Target Cumulative Q1 and Q2 £	Cumulative Actual £	Variance £
Income	0	0	0
Expenditure, Epping Projects	191,821 356,833	55,534 175,386	-136,287 -181,447
Net +Profit / -Loss	548,654	230,920	-317,734

Key issues to note:

- Project costs only including project manager, architects and other fees. Commercial Director costs (interim) shown in Qualis Group Board Costs.

5.4 Qualis Management

	Target Cumulative Q1 and Q2 £	Cumulative Actual £	Variance £
Income	0	0	0
Expenditure	48,000	17,429	-30,571
Net +Profit / -Loss	48,000	17,429	-30,571

Key issues to note:

- Project manager costs only. Operational Director costs (interim) shown in Qualis Group Board Costs.



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5.5 Qualis Living

	Target Cumulative Q1 and Q2 £	Cumulative Actual £	Variance £
Income, (less hand-through)	0		
Expenditure	59,191	24,032	-35,159
Net +Profit / -Loss	59,191	24,032	-35,159

Key issues to note:

- Delay in acquiring properties has resulted in operational underspend and no income receipt.

6 Operational Performance Summary

6.1 Key points of progress with the overarching Qualis Group of companies' business plan should be noted.

6.2 Qualis Group

- Set-up activities in terms of governance and procedures have been drafted and approved (in accordance with the shareholder agreement).
- Bankers have been appointed.
- IT office systems and email addresses have been set-up.
- Accounting and payroll systems have been set-up.
- A regular series of meetings has been set-up and operates.
- A risk and investment committee has been established

6.3 Qualis Commercial

- A planning performance agreement has been signed for the Epping sites
- An outline business case has been prepared for the Epping sites
- An optimal outline plan has been prepared for the Epping sites which is in discussion with EFDC Planning



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- Options for the leisure centre re-provision have been discussed with the EFDC provider.
- Options for the Epping Town Council have been discussed.
- Project managers, quantity surveyors and architects (up to Stage 2) have been appointed for the Epping sites.
- A preliminary view of the Waltham Abbey Roundhills site has been carried out.
- A preliminary view of the Debden Pyrles Lane site has been carried out.

6.4 Qualis Management

- Progress with the TUPE plan for the housing maintenance staff has been agreed.
- Systems and processes to support the transfer are being delivered to timescale.
- A staff consultation plan has been agreed and has commenced.

6.5 Qualis Living

- Additional purchases of assets to provide cash flow have yet to occur which leads to an amber performance being recorded.
- Management of the private rented properties bought by EFDC in Loughton is being carried out
- A portfolio approach and financial assessment approach to the purchase of income earning assets has been agreed.
- Two potential properties to acquire have been reviewed in detail (purchase not actioned).

7 Key Actions

7.1 The following key actions in addition or variation from the original plan are proposed:

7.2 Agree and call down planned loans by the 31st July 2020 (latest).

7.3 To complete the review of targets as shown in detail at Section 3.2.

End