



Qualis Group

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

# **Finance and Performance Monitoring Quarterly Report**

**1<sup>st</sup> November 2019 - 31<sup>st</sup> July 2020 (Q3)**

**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 of this report.**
- 3. To note that a quarter 4 report will be produced alongside a full set of audited accounts in November 2020. This set our accounts will be submitted to Companies House and the HMRC.**



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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 shareholder 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, exceptional performance	For finance; over twice the expected figure, for operations, over one month ahead of target delivery
	Green, good performance	For finance; positive performance up to twice the expected figure, for operations, up to one month ahead of target delivery
	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, 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, 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)	Review use of sites and prepare for consultation in September	Secured	=
Qualis Commercial	Delivery to plan Waltham Abby Roundhills site (in early stages of review)	Detail to be received Q4	Not applicable	
Qualis Commercial	Delivery to plan Debden Pyrles Lane site (in early stages of review)	Consider purchased from EFDC in Q4	Not applicable	
Qualis Management	Transfer of Housing Maintenance Service	Progress with detailed set-up plan (systems and processes)	Achieved	=



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Qualis Management	Review of potential for other service additions and transfers	Secure consultants for review, report received and discussions with EFDC due to occur in November 2020	Achieved	=
Qualis Living	Obtain up to £30m of other asset purchases from market to provide positive cash flow	Market search as no funding available now until late September 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, formal consultation due by December 2020	Achieved	=
Qualis Group	Securing of Independent Auditor	Secure, ideally a local company	Achieved	=
Qualis Group	Secure external legal support from major firm	Secure, ideally a local company	Achieved	=



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Qualis Group	Investigate alternative funding sources	Initial evaluation of market and market prices, new funding not required until November 2020		=
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## 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 have not been amended further in Q3 though additional IT expenditure and professional costs have been covered by the contingency budget.

3.2 The expectations have been reviewed at the end of Quarter 3 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).

Revised Expectation (1 <sup>st</sup> November 2019 – 31 <sup>st</sup> October 2020)	Detail
Loan agreements confirmed with EFDC, asset purchase from EFDC, £22m, asset purchase from market, £30m, working capital £5m	Minor changes to vale, £19m, £30m and £6m respectively
Loan draw downs in Qualis Year 1	Loans for £30m and £6m to be called down 21/09/2020, £18m loan to be actioned in 1 <sup>st</sup> week of October.



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## 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.

## 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		1,362,087	
Current Liabilities		303,658,	
Current Assets Less Current Liabilities			1,058,428
Long Term Assets			
Long Term Liabilities			1,500,000
Total			-441,572
Profit and Loss Account			-441,572



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#### 4.3 Qualis Commercial

		Actual £	Actual £
Assets		0	
Current Assets		386,686	
Current Liabilities		701,448	
Current Assets Less Current Liabilities			-314,762
Long Term Assets			
Long Term Liabilities		872,000	
Total			-1,186,762
Profit and Loss Account			-1,186,762

#### 4.4 Qualis Management

		Actual £	Actual £
Assets		0	
Current Assets		95,393	
Current Liabilities		176,835	
Current Assets Less Current Liabilities			-81,442
Long Term Assets			0
Long Term Liabilities		100,000	
Total			-181,442
Profit and Loss Account			-181,442





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#### 4.5 Qualis Living

		Actual £	Actual £
Assets		0	
Current Assets		79,151	
Current Liabilities		60,223	
Current Assets Less Current Liabilities			18,928
Long Term Assets			
Long Term Liabilities			25,000
Total			-6,072
Profit and Loss Account			-6,072

## 5 Income and Expenditure Summary

5.1 The income 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 3 and exclude internal recharges, loans and other amendments that will be shown from Quarter 3:

#### 5.2 Qualis Group

	Target Cumulative To Q3 £	Cumulative Actual £	Variance £
Income	0	0	
Expenditure	806,071	441,572	-364,499
Net +Profit /Loss	806,071	441,572	-364,499



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Key issues to note:

- Only some 20% of the Qualis Group Budget relates to the shared board cost of £247,839, the balance relates to shared overhead costs for the companies and set-up and loan interest costs.
- The significant underspend arises from the late agreement of loans, £128,571 vacancies and efficiencies achieved against the original set-up cost budget.

### 5.3 Qualis Commercial

	Target Cumulative To Q3 £	Cumulative Actual £	Variance £
Income	0	0	0
Expenditure	360,391	130,024	-230,367
Epping Projects	1,043,107	1,056,738	-13,631
<b>Net +Profit /Loss</b>	<b>1,403,498</b>	<b>1,186,762</b>	<b>-216,736</b>

Key issues to note:

- Project director and other project costs including project manager, architects and other fees. Commercial Director costs (interim) shown in Qualis Group Board Costs.
- The majority of the fees and due to be spent by March 2021 with construction costs following this.



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#### 5.4 Qualis Management

	Target Cumulative Q1 and Q2 £	Cumulative Actual £	Variance £
Income	0	0	0
Expenditure	288,034	181,442	-106,592
<b>Net +Profit / Loss</b>	<b>288,034</b>	<b>181,442</b>	<b>-106,592</b>

Key issues to note:

- Project Director and set-up costs only. First service is not live until 1<sup>st</sup> October 2020.

#### 5.5 Qualis Living

	Target Cumulative Q1 and Q2 £	Cumulative Actual £	Variance £
Income, (less hand-through)	356,783	12,572	344,211
Expenditure	2,842	18,644	15,802
<b>Net +Profit /Loss</b>	<b>353,941</b>	<b>6,072</b>	<b>360,013</b>

Key issues to note:

- Delay in acquiring properties has resulted in operational underspend and no income receipt as original assumption was that assets would be purchased from April.
- Due to this delay there is a significant saving in loan costs that will be shown in Quarter 4.



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## 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
- 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



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- 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 A final review of the budget will be undertaken for Quarter 4 and budgets are being calculated for next financial year.

7.2 Agree and call down planned loans by the 31<sup>st</sup> July 2020 (latest). A review of banking arrangements is planned and additional tax advice is being sort.

7.3A further planning performance agreement is being finalised.

7.4 Asset purchases from the market are due to be secured in early October at which time the initial asset sales from EFDC will be finalised.

**End**