

Report to the Council

Committee: Council

Date: 29th October 2020

Subject: Qualis Quarterly Monitoring Report – Q1/Q2 & Q3 2019/20

Portfolio Holder: Commercial and Regulatory Services – Cllr A. Patel **Item:**

Recommendations/Decisions Required:

- (1) That the Qualis Quarterly Monitoring Report – Q1/Q2 and Q3 2019/20 be noted.**

1. Executive Summary

- 1.1. Cabinet and Overview and Scrutiny have considered the attached Qualis Board Reports for Quarters 1 & 2 (presented together as Appendix A) and the Quarter 3 Board Report (Appendix B) at meetings in September and October 2020.
- 1.2. The Governance framework for Qualis, as agreed by Cabinet in February 2020, set the requirement that Qualis should report to Epping Forest District Council (Cabinet and Council) on its performance Quarterly and hence these reports are now produced for Council consideration.
- 1.3. Quarter 1 and 2 (Appendix A) covers the 6 month period to the end of April 2020, whilst the Quarter 3 report covers the Qualis trading period up until the 31 July 2020.
- 1.4. It is also a requirement of the Shareholder agreement that the Council's S151 officer provides a commentary on the reported position.
- 1.5. The key message for Council is that Qualis has been engaged over this period in recruiting key staff, developing internal structures and systems, completing the loan funding transaction, progressing planning work on the Epping Development sites and preparing for the transfer of Housing Maintenance at the end of September.
- 1.6. Covid19 has delayed many of the key actions for both Epping Forest District Council and Qualis and as a result, some of the originally planned targets have slipped. However, good progress is now being made.
- 1.7. Key asset acquisitions and service transfers will take place during Quarter 4 and monitoring reports will look different from that point forward.
- 1.8. **Given the points above and noting the impact of Covid19 on all Council activities, Qualis has performed in line with expectations for these periods.**
- 1.9. In accordance with the commitment given to the Council, this report represents the first of what will now be a regular sequence of Quarterly performance reports.

2. Introduction

- 2.1. The Qualis Shareholder agreement, as agreed by Cabinet on February 2020, included 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 three Quarters’ Management Accounts for the Council’s consideration. Production of the first two quarters took longer than originally envisaged as the organisation’s focus on priority issues associated with Covid-19 delayed the set-up and the initiation phase of its Business Plan. The Quarter 3 Board report was produced on time.

3. Commentary on the Trading Performance

- 3.1. The first 3 quarters of operation were non-typical in that Qualis needed to create its internal structures, systems and secure finance before it was able to acquire assets and council services thereby enabling it to trade. Until that had been achieved Qualis is only be incurring costs 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 reports attached at Appendix A & B meets 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.
- 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. As a result, agreeing the loan document has taken longer than originally expected because of pressures on both Epping Forest District Council and Qualis. This delay creates a consequential impact on both the Qualis Business Plan and the Council 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. 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	806,071	441,572	-364,499
Commercial	1,403,528	1,186,762	-216,766
Management	288,034	181,442	-106,592
Living	-353,941	6,072	360,013
Total	2,143,692	1,815,848	-327,844

3.7. It can now be reported that since the end of Quarter 3 the loan funding for Qualis has been agreed and paid, allowing Qualis to proceed with this part of its Business Plan. The impact of this will reflect in the Quarter 4 monitoring report.

3.8. In all other respects the Qualis Business Plan objectives are being met and showing good performance against the individual targets, (section 6 on the Qualis Board report), 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, in its capacity as Shareholder, can influence or control the activities of Qualis.

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. A 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
- 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 not 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.

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 in the Quarter 4 report when terms and transfer dates have all been agreed.

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

Group Company Governance Document – Cabinet 6 February 2020