



Qualis Group

Qualis Group, Qualis Living, Qualis Management, Qualis Commercial

Finance and Performance Monitoring Quarterly Report

Year 2, Quarter 1, (1st Nov 2020 – 31st Jan 2021) **Final for EFDC**

Subject: Finance and Performance Monitoring

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Sacha Jevans, Group Managing Director (summary)

Decisions Required: To approve the report and note the actions.

1. To note the figures and performance highlighted in this report.
2. To support the key actions detailed in Section 12 of this report.
3. To agree that this report should be passed to Epping Forest District Council in line with the Shareholder Agreement (with any agreed amendments).



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1. Purpose of this report

- 1.1 The Qualis Group Board regularly receives updates on financial and operational issues at its monthly Board Meetings.
- 1.2 In line with the Shareholder Agreement, the Qualis Group Board receives a quarterly Finance and Performance Report that tracks the success of the Group against the (EFDC) agreed Annual Business Plan and Annual Budget.
- 1.3 This formal monitoring will include any Board and subsequently Shareholder approved amendments to the Business Plan and Annual Budget.
- 1.4 The quarterly Qualis Finance and Performance Report will be passed to EFDC to allow scrutiny and to be noted.

2. Monitoring finance and operational 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 of companies.
- 2.2 Major exceptions are reported as are actions to remedy any exception.
- 2.3 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.



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	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.

2.4 Direction of travel indicators

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

3. Key performance indicators

Finance KPI	Measure	Target £	Actual £	
Cash	Cash held by Qualis Group of companies, target versus actual	11,206,878	10,871,112	=
Income and Expenditure	Total income and expenditure position of Qualis Group of companies, target versus actual	- 283,486	- 696,837	=
Balance Sheet	Net balance sheet worth of Qualis Group of companies, target versus actual		- 2,188,063	=



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Operational KPI	Measure	Target	Actual	
Qualis Commercial	Delivery to plan Epping sites	Planning submission for Bakers and Cottis sites	December 2020	=
Qualis Commercial	Delivery to plan Waltham Abby Roundhills site	Business case details due to be received Year 2 Qtr 1	Business case to Board 18 th February 2021	=
Qualis Commercial	Delivery to plan Debden Pyrles Lane site	Business case details due to be received Year 2 Qtr 1	Business case for Pyrles Lane to Board 18 th February 2021	=
Qualis Management	Housing Maintenance improvement in productivity and other measures	Service Level Agreement Key Performance Indicators are near agreement and will appear from Q2 onwards	Early signs of improved productivity	=
Qualis Living	Return on investment asset portfolio.	6% minimum	6.5% (from first two properties)	=



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4. Budget and business plan amendments this quarter

4.1 There have been no agreed amendments to the budget in respect of an increase in the quantum of income and cost. The adjustments have occurred as a result of the planned usage of the Contingency Reserve and are detailed on the following page.

Adjustments Already Made	Line	Action	WTE Impact	£ Impact
Pressure on Media Resource	Media consultancy	Add	0.00	54,800.00
HR Restructure	Vacancy	Alter	0.00	- 16,862.00
	Recruitment costs	Add	0.00	3,720.00
	Web page	Add	0.00	500.00
Net Impact on Contngency Reserve		Reduce	0.00	- 42,158.00
Total Actioned For Quarter 1			0.00	-

The proposed adjustments for Q2 are estimated as follows.

Adjustments for Quarter 2	Line	Action	WTE Impact	£ Impact
Health and Safety IT		Add		20,000.00
Mainstream IT, Optins and System	Estimate	Add		150,000.00
Benefits Broker	Estimate	Add		5,000.00
Insurance Broker	Estimate	Add		5,000.00
Extension of Auditors Term	Estimate	Add		9,000.00
Community Interest Company Set-up	Estimate	Add		3,000.00
Community Interest Company Primera	Estimate	Add		6,000.00
Community Interest Company Other	Estimate	Add		10,000.00
Net Impact on Conultancy	Estimate	Reduce		- 208,000.00
Total			0.00	-



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5. Detailed financial performance, cash

5.1 The actual cash held by Qualis at the end of January was £10,871,112 against a target expectation of £11,206,878. The difference is because though two investment properties had been secured and are earning income, a prudent investment in the third asset has yet to present itself, and approximately £135,000 income has not been received.

5.2 Qualis was set-up based on loans supplied by EFDC as these provided certain and affordable funding to Qualis whilst giving EFDC immediate benefit from the margin made in loans. The loans drawn down in the first year are as follows:

- £6m working capital loan (5-year term, repayments of principal and interest half yearly).
- £30m asset investment loan (10-year term, principal repaid on maturity and interest half-yearly).

5.3 Work is continuing with EFDC regarding the finalisation of the remaining loans totalling £85m to cover asset purchases from EFDC and the subsequent development of these sites.

6 Detailed financial performance, balance sheets

6.1 Reflecting the leveraged position of Qualis and the fact that income earning assets have yet to be purchased and the Housing Maintenance Service has transferred with reactive maintenance now being undertaken and void and more extensive works following over the next 24 months. Please note that these are the interim balance sheets pending a review of the income and expenditure position and the finalisation of loans.

6.2 It should be noted that the costs of development projects are by convention treated as “work in progress”, i.e., an asset.

6.3 All loans pass through Qualis Group and therefore any uncalled balance remains shown at group level even if the destination of the loan is another company on the Qualis group of companies.



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6.4 Qualis Group

		Actual £	Actual £
Assets		-	
Current Assets		35,827,675	
Current Liabilities		541,292	
Current Assets Less Current Liabilities			35,286,383
Long Term Assets			
Long Term Liabilities			35,250,000
Total			36,383
Profit and Loss Reserve			16,380
Profit and Loss Account			20,003
			36,383

6.5 Qualis Commercial



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		Actual £	Actual £
Assets		-	
Current Assets		3,130,028	
Current Liabilities		4,536,673	
Current Assets Less Current Liabilities			- 1,406,645
Long Term Assets			
Long Term Liabilities			-
Total			- 1,406,645
Profit and Loss Reserve			- 971,737
Profit and Loss Account			- 434,909
			- 1,406,645

6.6 Qualis Management

		Actual £	Actual £
Assets		78,293	
Current Assets		2,117,675	
Current Liabilities		2,786,432	
Current Assets Less Current Liabilities			- 590,464
Long Term Assets			-
Long Term Liabilities			
Total			- 590,464
Profit and Loss Reserve			- 352,953
Profit and Loss Account			- 237,511
			- 590,464

6.8 Qualis Living



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		Actual £	Actual £
Assets		20,793,122	
Current Assets		- 188,904	
Current Liabilities		20,831,554	
Current Assets Less Current Liabilities			- 227,337
Long Term Assets			
Long Term Liabilities			-
Total			- 227,337
Profit and Loss Reserve			- 182,916
Profit and Loss Account			- 44,420
			- 227,337

7 Detailed financial performance, income and expenditure.

7.1 The income and expenditure summary for the individual companies that form the Qualis Group of companies is summarised below. Note figures are cumulative to the end of Quarter 1 2021.

7.2 Qualis Group



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	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	506,070	406,525	- 99,544
Expenditure	485,570	386,523	- 99,047
Net +Profit / -Loss	20,500	20,003	- 497
Tax Liability		-	-
	20,500	20,003	- 497

Key issues to note:

- Not all posts have been filled so expenditure is below budget. Recharges are based on current expenditure, so income is equally below target. In overall terms there is a small loss recorded at the end of Quarter 1, but no underlying concerns and issues need to be raised.

7.3 Qualis Commercial



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	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	377,033	-	- 377,033
Expenditure	366,052	319,180	- 46,872
Net +Profit / -Loss	10,981	- 319,180	- 330,161
Loan Interest	-	115,729	115,729
Profit After Loan	10,981	- 434,909	- 445,890

Key issues to note:

- Operational costs incurred in delivering projects the costs that cannot be treated as “work in progress” until planning permission is granted. If the planning determination is positive, costs will be transferred to work in progress and be treated as project costs.

7.4 Qualis Management



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	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	1,427,930	1,428,094	165
Expenditure	1,560,086	1,665,605	105,519
Net +Profit / -Loss	- 132,157	- 237,511	- 105,354

Key issues to note:

- The above includes set-up costs incurred before services were transferred from EFDC to Qualis in late September 2020. The original budget assumed that set-up costs would be incurred by EFDC and recovered over a five year Qualis has accepted these costs. This has allowed EFDC to declare an underspend on the Qualis Management set-up budget.

7.5 Qualis Living



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	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income, (less hand-through)	402,500	376,590	- 25,910
Expenditure	135,311	121,010	- 14,301
Net +Profit / -Loss	267,189	255,580	- 11,609
Loan Interest	450,000	300,000	- 150,000
Profit after Loan	- 182,811	- 44,420	138,391

Key issues to note:

- Delay in acquiring properties has resulted in operational underspend and no income receipt although it should be noted that two properties were acquired in October with a gross yield in excess of 6%.

8. Operational performance, Qualis Group



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Item	Target	Status
A Risk and Audit Committee has been established	By end of set-up year.	Achieved
A Nominations, Remuneration and Governance Committee has been established	By end of set-up year.	Achieved
The permanent Board has been appointed along with a Company Secretary	By end of set-up year.	Achieved
The one-year Group Business Plan (2020/2021) has been approved	By end of set-up year.	Achieved
Set-up activities in terms of governance and procedures have been drafted and approved (in accordance with the Shareholder agreement).	By end of set-up year.	Achieved

9. Operational performance, Qualis Commercial.

Item	Target	Status
A planning performance agreement has been signed for the Epping Town Centre sites (including Bakers Lane, Cottis Lane, St Johns, Hemnall and Conder)	By end of set-up year.	Achieved
An outline business case has been prepared for the Epping Town Centre sites (including Bakers Lane, Cottis Lane, St Johns, Hemnall and Conder)	By end of set-up year.	Achieved
Planning applications submitted for Bakers and Cottis sites (leisure centre and multi-storey car park)	December 2020	Achieved
Options for the leisure centre operation have been	January 2021	Achieved



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considered by EFDC Cabinet and details are currently being worked on		
Project managers, quantity surveyors and architects (up to Stage 1) have been appointed for the Epping sites. Consideration of these appointments to Stage 2 is being considered at the February Board	By end of set-up year.	Achieved
A preliminary view of the Waltham Abbey Roundhills site has been carried out and will be considered by the board in February,	February 2020	Pending for Quarter 2 report
A preliminary view of the Debden Pyrles Lane site has been carried out.	February 2020	Pending for Quarter 2 report

10. Operational performance, Qualis Management

Item	Target	Status
Progress with the TUPE plan for the housing maintenance and repairs staff has been agreed.	By end of set-up year.	Achieved
Systems and processes to support the transfer are being delivered to timescale.	By end of set-up year.	Achieved
A staff consultation plan has been agreed and has commenced.	By end of set-up year.	Achieved

11. Detailed operational performance, Qualis Living



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Item	Target	Status
Acquisition of Wickes, Wyke Hill, Maldon complete	November 2020	Achieved
Acquisition of the Birchwood Building, Leatherhead complete	November 2020	Achieved
Investment strategy has been agreed	July 2020	Achieved
Weekly investment meetings taking place	By end of set-up year.	Achieved
Investment and Development Committee established	By end of set-up year.	Achieved
A strong network with investment agents has been established	By end of set-up year.	Achieved
Opportunity tracking and approval processes have been agreed	By end of set-up year.	Achieved

12. Key Actions for completion in the next quarter

Action	Responsible Manager(s)	Target Date	Resource Implications Over Budget
Qualis Management Complete fine tuning of Housing Maintenance SLA and final confirmation of operational and financial KPIs.	Ben Johnson	March 2021	None
Qualis Living Secure third investment property in Phase 1 of portfolio build	Paul Hewitt	March 2021	Will increase income to budget levels.
Qualis Living	Nick Dawe	May 2021	None



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Secure further loan of £30m as per approved Business Plan			
Qualis Commercial Complete asset purchases from EFDC for Phase 1 properties. Remaining questions currently with EFDC legal.	Paul Hewitt , Chris Ives	March 2021	None
Qualis Commercial Finalise remaining loans of £85m with EFDC as per the approved Business Plan.	Nick Dawe	March 2021	None
Qualis Commercial Confirm impact of EFDC retaining ownership of Bakers, recovering costs spent to date and confirm Development Management role	Paul Hewitt / Nick Dawe	March 2021	None

13. Summary statement from the Group Managing Director

The Qualis Group of companies continue to deliver its objectives and systems for reviewing financial and operational performance are in place. Qualis should achieve all agreed objectives by the end financial year ended 30th September 2021, (note date change to align with normal quarter date)