

Report to the Cabinet

Report reference: C-004-2021/22

Date of meeting: 21 June 2021



**Epping Forest
District Council**

Portfolio: Finance, Qualis Client & Economic Development – Cllr J Pilip

Subject: Qualis Quarterly Monitoring Report – Q2 2020/21

Responsible Officer: Andrew Small (07548 145665).

Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

Considering any comments made by Overview and Scrutiny, 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, included the requirement that Qualis should report to Epping Forest District Council on its performance Quarterly.
- 1.2. This report presents the second Quarter's monitoring report for the Qualis trading year 2020/21 and covers the period from 1 February to 31 March 2021. This reflects a shortened quarter due to the change in the Qualis year end. This report was considered by Overview and Scrutiny Committee on 8th June and their comments will be reported verbally to this meeting.
- 1.3. Attached to this report as Appendix A is the Qualis Board monitoring report for Quarter 2 as agreed by the Qualis Board on 29 April 2021.
- 1.4. Performance is measured against the business plan targets for 2020/21. The Board report highlights performance against these using the recognised Red, Amber, Green reporting system (RAG).
- 1.5. **Noting the objectives flagged as Amber and the explanations provided, Qualis has again performed in line with expectations during the second Quarter.**

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 Quarters' Management Accounts for the Council's consideration together with the commentary below from the Council's S151 officer.
- 2.4. As reported previously, Qualis requested, and the Council agreed, to a change in their year-end reporting date and this shortens their trading year by one month. To facilitate this change one of their reporting quarters needs to be squeezed during 20/21 and Qualis has elected that this be done in Quarter 2, so that their reporting dates aligns, by an offset of 6 months to the Council's own year-end. As a consequence, this Qualis Board report only covers a 2 month period.

3. Commentary on the Trading Performance

- 3.1. The Qualis 1st year of operation was non-typical in that Qualis needed to create a management and staffing structure, secure finance and acquire both assets and services to manage before it could properly trade. Whilst this process remains ongoing Qualis had acquired both commercial property and the Housing Maintenance Service by the end of its first operational year.
- 3.2. Whilst the first year was financially dominated by outgoings, the second year should be a balance of income and expenditure with a small forecast profit targeted within the single year Business Plan presented to Council in December. So, this year's monitoring should be more typical of a trading company, recognising that revenue earnings will still gradually be built up over time.
- 3.3. The Qualis report attached at Appendix A 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 majority of the deliverables for Quarter 2 are flagged as Green with the exceptions highlighted below.**
- 3.5. **Cash (Moved to Green from Amber last Quarter)** – Qualis reports as having a Cash balance at the end of the first quarter which is £3.2 million higher than its £12.3 million target. This is primarily due to Qualis securing the first tranche of the construction loan from the Council in order to fund the on-going work to secure planning permission for the regeneration sites.
- 3.6. **Qualis Living (Flagged as Amber)** - The cash balance remains high as Qualis has yet to secure the final (£10 million) commercial property investment from the balance of the £30 million funding loaned to Qualis in September 2020. Whilst Qualis targeted acquiring an acquisition before this date, it is important that an acquisition is carefully selected for fit, security and return and shouldn't be unduly pressured in order acquiring a property that sits outside of their acquisition strategy in order to meet business plan cash targets. The delay in securing the third commercial property is the reason that this is KPI is flagged as Amber.
- 3.7. **Income and Expenditure (Remaining as Amber)** – The Board report includes

cumulative losses up to the end of the 2nd quarter of £473,551 (analysed in the table in 3.9) compared to a business plan expectation of a loss of £197,295. This is an improvement on the cumulative loss reported last Quarter of £696,837. The reason given being largely associated with accrued expenditure on development sites which Qualis is unable to charge to its Balance Sheet as 'Work in Progress' until planning consent is given. Once Planning consent is awarded, this cost will be removed from the Profit and Loss account. Achievement of Planning consent has taken longer than originally anticipated but now has a scheduled date set for the combined applications to be considered by the District Development Committee in July. Should Planning consent not be obtained this cost will remain a charge in the Profit and Loss account until permission is resolved. The increase in the carried cost of 'Work in Progress' masks improvements in Qualis Management revenues associated with the Housing Maintenance contract, and lower interest costs in Qualis Living.

3.8. **Roundhills and Pyrles Lane Delivery Plans to Board (Moved to Green from Amber last Quarter)** – The business cases have been reviewed by the Board and, in the case of Roundhills, some additional work is being undertaken. In respect of the Pyrles Lane site, Qualis has shared early thinking with the Council and another item appears on this agenda seeking views in relation to options for this site.

3.9. The table below sets out the actual net income and expenditure against that expected for each of the Qualis companies.

Qualis Company	Expected £	Actual £	Variance £	Last Report £
Group	29,047	28,272	-755	20,003
Commercial	18,303	-745,770	-764,073	-434,909
Management	45,042	106,272	61,230	-237,511
Living	-289,686	137,675	427,361	-44,420
Total	-197,294	-473,551	-276,257	-696,837

3.10. The Balance Sheet position, showing Fixed Assets and accumulated net worth of Qualis, is set out in the table below. Fixed Assets are individually identified as the Council charges these for security purposes against the loans provided. The Net Worth position reflects the accumulation and carry forward of set-up costs to be offset by future planned profits.

Qualis Company	Fixed Assets £	Net Worth (Q2) £	Last Report £
Group	48,844	44,652	36,383
Commercial	-	-1,717,507	-1,406,645
Management	74,588	-246,681	-509,464
Living	20,793,122	-45,241	-227,337
Total	20,871,415	-1,964,777	-2,107,063

3.11. Delivery of the £238,039 surplus contained in the single year Business Plan will largely depend upon successfully obtaining planning consent for the Epping regeneration sites. In all other respects the Qualis Business Plan objectives are being met and showing good performance against the individual targets set out in the Qualis Board report including progress on bringing forward the redevelopment sites in the District.

4. Change of Accounting Date

- 4.1. Qualis advised the Council that they wished to change their reporting date by 1 month, bringing it forward to the 30th September from the 31st October. This is considered a minor change and aligns better with the Council's budget preparation timetable and so has been agreed. As a consequence, the quarterly reporting cycle will also need to change to align to this revised date and so this quarter is only 2 months, covering February and March 2021. This will not affect the performance, only the dates it is reported

5. Resource Implications

- 5.1. The Epping Forest District Council 2020/21 Budget and Medium-Term Financial Plan approved in February 2020 included 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 20 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 and taken longer to complete.

- 5.4. Both these factors will reduce the expected gains to Epping Forest District Council and therefore add to the Council's ultimate cost of Covid-19 during 2020/21. Revised assumptions, factoring in the delays resulting from Covid19, have been used in preparing the Councils Medium Term Financial Plan for 2021/22.

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