



Qualis Group

Incorporating, Qualis Group, Qualis Living, Qualis Management, Qualis Commercial

# Finance and Performance Monitoring Quarterly Report

Year 2, Quarter 4, (1<sup>st</sup> April 2020 – 30<sup>th</sup> September 2021)

**Subject:** Finance and Performance Monitoring

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Sacha Jevans, Managing Director (summary)

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

1. To note the figures and performance highlighted in this report that are to plan or will be on plan by the end of the financial year.
2. To note that final adjustments may be required for the year-end accounts.
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 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 shareholder (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 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.

### 3. Key performance indicators finance

Finance KPI	Measure	Target £	Actual £	
Cash	Cash held by Qualis Group of companies, target versus actual	2,500,000	2,972,249	=
Income and Expenditure	Total income and expenditure position of Qualis Group of companies, target versus actual	- 310,257	- 2,099,972	=
Income and Expenditure Adjusted for Planning Not Secured until October 2021	Total income and expenditure position of Qualis Group of companies, target versus actual	- 310,257	117,156	=
Balance Sheet	Net balance sheet worth of Qualis Group of companies, target versus actual		- 3,417,572	=

The overall financial position remains satisfactory.



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The year-end cash position is slightly ahead of target and a further £600,000 is due from EFDC in terms of preliminary works on Bakers Street Leisure Centre.

The income and expenditure position reflects that at the actual year-end planning permission was yet to be secured on the Epping development sites, although this was secured at the end of October. Once this is taken into account, Qualis's year-end performance is better than the original target set.

In respect of the balance sheet, the figure do not reflect any revaluation of assets due to planning permission having been gained as this happened the month after the Qualis financial year-end.

There are no material issues, and therefore, taking one year with another, Qualis is considered a "Going Concern".

It should be noted that operational performance indicators are now the subject of a separate detailed report.

#### **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 this quarter requiring approval by the Qualis Board.

4.2 It should be noted however, that in agreement with EFDC, Qualis operated an eleven-month year so as to synchronise its financial yearend with the half-year of the Authority. This will assist in building the EFDC Budget and help with understanding of the financial benefits that Qualis can offer EFDC in the form of loan margins, dividends and service discounts, and Qualis's request for loans



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## 5. Detailed financial performance, cash

5.1 The actual cash held by Qualis at the end of September was £2,972,249 against a target expectation of £2,500,000. The difference is both positive and small and reflects operational creditor and debtor management issues.

5.2 It should be noted that Qualis received a loan of £6m working capital on inception to be repaid over five years, 3 years of repayment remaining. The positive cash balances are what is expected at this time allowing for the building up of trading activity and income from investment assets.

5.3 Qualis is however expecting further loans to be drawn down from EFDC at the end of Q1 or the beginning of Q2, these are as follows:

- Draw of £6m from the already approved development loan to cover the costs of the next stages of work on the Epping Development Projects.
- Draw down of £10m from the already approved regeneration loan to cover the cost of potential asset acquisitions.

## 6 Detailed financial performance, balance sheets

6.1 Reflecting the leveraged position of Qualis and the fact that all the initial income earning assets have just been purchased, that the balance sheets overall show a negative position.

6.2 It should be noted that the main reason that there is a negative balance sheet position reported is due the fact that prudently, that the costs of development projects are carried in the income and expenditure account until planning permission is obtained, at which time they are transferred to the balance sheet and are classified as “work in progress”.

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 eventually another company on the Qualis group of companies.



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#### 6.4 Qualis Group

		Actual £	Actual £
Assets		66,359	
Current Assets		41,387,565	
Current Liabilities		731,205	
Current Assets Less Current Liabilities			40,656,360
Long Term Assets			
Long Term Liabilities			40,650,000
Total			72,719
Profit and Loss Reserve			16,380
Profit and Loss Account			56,339
			72,719

#### 6.5 Qualis Commercial

		Actual £	Actual £
Assets		-	
Current Assets		4,526,298	
Current Liabilities		- 2,848,737	
Current Assets Less Current Liabilities			- 2,848,737
Long Term Assets			
Long Term Liabilities			-
Total			- 2,848,737
Profit and Loss Reserve			- 971,737
Profit and Loss Account			- 1,877,001
			- 2,848,737



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### 6.6 Qualis Management

		Actual £	Actual £
Assets		64,481	
Current Assets		1,933,777	
Current Liabilities		2,168,900	
Current Assets Less Current Liabilities			- 170,642
Long Term Assets			-
Long Term Liabilities			
Total			- 170,642
Profit and Loss Reserve			- 352,953
Profit and Loss Account			182,311
			- 170,642

### 6.7 Qualis Living

		Actual £	Actual £
Assets		30,271,382	
Current Assets		352,186	
Current Liabilities		31,094,480	
Current Assets Less Current Liabilities			- 470,912
Long Term Assets			
Long Term Liabilities			-
Total			- 470,912
Profit and Loss Reserve			- 182,916
Profit and Loss Account			- 287,996
			- 470,912



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There are no specific issues to raise in respect of the balance sheets except to emphasize the impact of the “work in progress” issue, and that planning permission was gained after the Qualis financial year-end.

## 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. Noting that the figures are cumulative to the end of September 2021 (an eleven-month financial year).

### 7.2 Qualis Group

	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	1,349,519	1,738,179	388,660
Expenditure	1,307,653	1,681,840	374,187
Net +Profit / -Loss	41,866	56,339	14,472
Tax Liability		-	-
	41,866	56,339	14,472

There are no issues to raise and at year-end the income and expenditure position has delivered marginally in excess of target.





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### 7.3 Qualis Commercial

	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	999,267	-	- 999,267
Expenditure	970,162	1,377,372	407,209
Net +Profit / -Loss	29,105	- 1,377,372	- 1,406,476
Loan Interest	-	499,629	499,629
Profit After Loan	29,105	- 1,877,001	- 1,906,105

Operational costs incurred in delivering projects the costs that cannot be treated as “work in progress” until planning is gained. At this point, and if the planning submission is successful these costs will be transferred to work in progress and be treated as project costs. The position is unchanged as planning determination is not expected now until October 2021, (previously July). This is therefore a technical variance of budget rather than signalling a concern, material delay or an adverse implication in future quarters.

### 7.4 Qualis Management

	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income	2,648,892	6,561,095	3,912,203
Expenditure	2,603,850	6,378,784	3,774,934
Net +Profit / -Loss	45,042	182,311	137,269

The service continues to operate at a profit in excess of target. This position has declined in quarter 4 but this reflects an agreed return of around £200,000 to EFDC in terms of overhead charges and other costs.



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A further extension of services is planned as per the original business case and this will take place over the following financial year.

### 7.5 Qualis Living

	Target Cumulative YTD £	Cumulative Actual £	Variance £
Income, (less hand-through)	1,481,667	1,339,140	- 142,527
Expenditure	381,399	600,761	219,362
Net +Profit / -Loss	1,100,268	738,379	- 361,889
Loan Interest	850,000	1,200,000	350,000
Profit after Loan	250,268	- 461,621	- 711,889

Understandable delay in selecting a third asset has meant that a loss is recorded this quarter, however as the third asset has now been purchased performance should improve significantly over the following financial year, (as the original budget was based on securing all investment asset purchases by the end of December 2020).

For information the cash impact of purchasing the first three investment assets is tabled overleaf showing all costs and fees including tax and stamp duty payments.



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Property		Leatherhead	
<b>Supplier Name</b>		<b>Detail of Work</b>	<b>Sum of Debit</b>
<input type="checkbox"/> Aquilla		Insurance	5,778.94
<input type="checkbox"/> Colliers International		Valuation Report	7,500.00
<input type="checkbox"/> Jones Hargreaves		Site Inspection & Survey	11,190.00
<input type="checkbox"/> Montagu Evans		Reporting	116,195.00
<input type="checkbox"/> Pinsent Masons		Asset Payment	12,957,656.50
		Professional Fees	40,720.32
		SDLT	672,880.00
		Land Registry Fee	455.00
		Title Insurance Premium	22,400.00
<b>Grand Total</b>			<b>13,834,775.76</b>
Property		Maldon	
<b>Supplier Name</b>		<b>Detail of Work</b>	<b>Sum of Debit</b>
<input type="checkbox"/> Aquilla		Insurance	4,502.03
<input type="checkbox"/> Asset Payment		Asset Payment	1,252.05
<input type="checkbox"/> Jones Hargreaves		Site Inspection & Survey	3,580.00
<input type="checkbox"/> Knight Frank		Valuation Report	5,500.00
<input type="checkbox"/> Montagu Evans		Reporting	59,000.00
<input type="checkbox"/> Pinsent Masons		Insurance	703.18
		Land Registry Fees	455.00
		Professional Fees	14,826.40
		SDLT	284,500.00
		Land Registry Fee	455.00
<input type="checkbox"/> Addleshaw Goddard		Asset Payment	5,874,427.12
<b>Grand Total</b>			<b>6,249,200.78</b>
Property		Coventry	
<b>Supplier Name</b>		<b>Detail of Work</b>	<b>Sum of Debit</b>
<input type="checkbox"/> Charles Russell Speechlys LLP		Asset Payment	9,000,000.00
		Land Registry Fees	455.00
		Professional Fees	22,005.06
		SDLT	439,500.00
<input type="checkbox"/> BNP		Professional Fees	8,150.00
<b>Grand Total</b>			<b>9,470,110.06</b>
<b>Overall Cash Flow Impact</b>			<b>29,554,086.60</b>



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## 8. Key financial actions for completion in the next two quarters.

Action	Responsible Manager(s)	Target Date	Resource Implications of Actions Themselves
Qualis Management			
Review operational and financial performance after one-year of operation.	BJ	March 2022	None
Review financial sense of transferring Grounds and Gardens Service to Qualis	BJ	March2022	TBC
Qualis Commercial			
Complete asset purchases from EFDC for Phase 1 properties.	SR	Concluded in October 2021	None
Secure planning permission for Epping sites	SR	Concluded in October 2021	None
Final review of Epping project costs	SR/ND	January 2022	Minimal
Qualis Living			
Finalise remaining loan of £63m with EFDC as per the approved Business Plan.	ND/SR	January 2022	Minimal
Finalise draw down of £10m of £35m regeneration loan	ND/SR	January 2022	Minimal
EFDC investment asset transfer examining combined benefits and pipeline of development projects	PH/SR	March 2022	£100,000 budgeted



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## **9. Summary statement**

The Qualis group of companies continue to deliver its objectives and systems for reviewing financial and operational performance are in place. Qualis, allowing for the recent securing of planning permission, progresses as expected.