

## **Report to Cabinet**

**Report reference:** C-016 2023/24  
**Date of meeting:** 31<sup>st</sup> May 2023



**Portfolio:** Finance, Qualis Client and Economic Development – Cllr J. Philip  
**Subject:** Quarterly Monitoring Report – Q3 (Year 4) 2022/23  
**Responsible Officer:** Andrew Small (07548 145665).  
**Democratic Services:** Vivienne Messenger (01992 ).

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### **Recommendations/Decisions Required:**

- (1) 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 4<sup>th</sup> Qualis trading year 2022/23 and covers the period from 1 January 2023 to 31 March 2023. Attached as Appendix A is the Qualis Board monitoring report for Quarter 3.
- 1.3. Performance is measured in the attached report against the business plan targets for 2022/23 contained within the Qualis 1 year Business Plan.
- 1.4. The Qualis group of companies was created by the Council to bring control back to the Council over the direction and style of development and over delivery of key services. Additionally, profits previously paid to, or retained by, third parties are now retained by the Council, significantly reducing the financial challenges faced by the Council at this time.
- 1.5. **Beyond the difficulties and challenges created by the economic factors previously reported, Qualis continues to make positive returns in 3 of its 4 companies, albeit below target levels. As reported last Quarter, Qualis Living is finding achieving targets the most difficult and this is attributed to targets for the year being too optimistic given current economic conditions. This will need to be addressed in the next iteration of the Qualis Business plan, when target will be revised again to reflect current market conditions. Despite the difficult trading conditions, the position still includes almost £2 million of interest payments made by Qualis to the Council (over the previous 12 months) for its lending and these directly support the Council's continued provision of valued services.**

- 1.6. Qualis has significantly improved the quality and ease of understanding of their Board reports for the Shareholders consumption to the point where the commentary in the cover report is now largely duplicating the content of the Board report provided. Consequently, elements of repetition, such as certain tables and narrative are now no longer included in this cover report and instead it focuses on key messages.
- 1.7. **Overall Qualis reports a Quarter 3 loss of £860,105, which is greater than forecast by £723,199 across all companies. This is a deterioration on the Q2 position by £509,387. This is largely attributed to delays in completing the car park and receiving car park income and lower fees for the management of the EFDC assets.**

## 2. Introduction

- 2.1. The Qualis Shareholder agreement, as agreed by Cabinet in 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 consideration.

## 3. Commentary on the Trading Performance for Quarter 3, 2022/23 (Qualis Year 4)

- 3.1. The Qualis Board report attached at Appendix A has been developed by Qualis to make it more informative and intelligible to the shareholder, in part mirroring the summary previously provided within the cover report. It has now been developed to the point where the detail no longer needs to be extracted and summarised in the cover report as the key information is easily identifiable from the Board report itself. Consequently, the summary cover report has been reduced in length to remove duplication and instead will be used mainly to highlight issues or identify areas of disagreement or concern.
- 3.2. The key points identified are that trading position largely continues in line with the trends highlighted in previous Board reports, without major variation or exception. The trading losses for Qualis Living have increased this Quarter as delays in completing projects are factored in, most notably the car park. The fees for managing the Council’s commercial assets were over also assumed in the Business Plan, as the charging agreement has not been reached when the Plan was prepared. The Quarter’s results include lower expectations in this respect. It is expected that Qualis Living will continue to lose money for the remainder of their trading year, (3 months). This is partly due to the continued difficult trading environment and partly due to overly ambitious targets set for the year, recognising that the two factors are interrelated. Action and revised targets will be set in the forthcoming revision and update of the Qualis Business Plan.

- 3.3. Also of note is that Qualis has restructured some of its companies and an update was sent to all elected members explaining the reasons why this was necessary.
- 3.4. The value of Qualis assets, against which the Council's loans are secured remain broadly equal, as set out in the Tables 5.1 and 6.1 within Appendix A. This remains a critical shareholder test and will be regularly reported.
- 3.5. Qualis Net Worth has reduced to negative £6.3 million, reflecting the addition of the reported loss for Q3.

#### **4. Resource Implications**

- 4.1. The Epping Forest District Council Budget and Medium-Term Financial Plans partly rely on interest paid by Qualis for the loans the Council has given. Delays in obtaining Planning consent, issues around title and delays in completing the loan agreements all have an impact and can mean that actual payments to the Council vary below those expected in 2022/23. The Budget for 2023/24 recently approved by Council provides a contingency provision to smooth fluctuations caused by events outside of the Council's control.

#### **5. Legal and Governance Implications**

- 5.1. None contained within this report.

#### **6. Safer, Cleaner and Greener Implications**

- 6.1. None.

#### **7. Consultation Undertaken**

- 7.1. None

### **Background Papers**

Group Company Governance Document – Cabinet 6 February 2020