

Report to Overview and Scrutiny Committee



SCRUTINY

Date of meeting: 15 October 2020

Portfolio: Commercial and Regulatory Portfolio – Cllr Patel



Subject: Qualis Quarterly Monitoring Report – Q3 2019/20

Officer contact for further information: Andrew Small

Democratic Services Officer:

Recommendations/Decisions Required:

- (1) To discuss this report and agree any comments to Cabinet**

1. Executive Summary

- 1.1. The Governance framework for Qualis, as agreed by Cabinet in February 2020, set the requirement that Qualis should report to Epping Forest District Council on its performance Quarterly.
- 1.2. This report presents the 3rd Quarter for the period up to 31 July 2020. This effectively brings Qualis monitoring up to date. Cabinet are due to consider this report at its meeting on 19 October 2020 and Overview and Scrutiny are requested to review its contents and make any comments that will aid Cabinet's consideration.
- 1.3. Attached to this report as Appendix A is the Qualis Board monitoring report for Quarter 3 as agreed by the Qualis Board on 22 September 2020.
- 1.4. The key message is that Qualis has been engaged over this period in 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.
- 1.5. As reported in the last monitoring report, 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.
- 1.6. For Qualis, Quarter 3 represented a further phase of planning, set-up and initiation works because of the delays associated with Covid19. Key asset acquisitions and service transfers will take place during Quarter 4 and monitoring reports will look different from that point forward.
- 1.7. **Given the points above and noting the impact of Covid19 on all Council activities, Qualis has performed in line with expectations during Quarter 3.**

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 a further Quarters’ Management Accounts for the Council’s consideration. During this Quarter Qualis has been focused on the set-up and the initiation phase of its Business Plan. This has taken longer than expected as all things have been impacted by Covid-19.

3. Commentary on the Trading Performance

- 3.1. The first few months of operation are non-typical in that Qualis needs to secure finance and acquire assets and services to manage before it can trade. Until this has been achieved Qualis will only be incurring cost 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 is complete 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 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. **Overview and Scrutiny 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 Council) 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 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. Resource Implications

- 4.1. The Epping Forest District Council Medium Term Financial Plan approved in February includes assumptions on the returns and income generated from Qualis.
- 4.2. 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

- 4.3. 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.
- 4.4. Both these factors will reduce the expected gains and therefore add to the Council's ultimate cost of Covid-19.
- 4.5. The actual reduction will depend on the date borrowing is taken and the loans made to Qualis. Cabinet and Overview and Scrutiny will be updated in the Quarter 4 report when terms and transfer dates have all been agreed.

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