

Appendix 6 – Council Trading Company Update 2019/20, Quarter 2

Introduction

1. As at Quarter 2 2019/20, the council's trading structure consists of five separate legal entities set out in table 1 below and presented as a flow chart at the end of this report along with detailed financials.

Table 1: Harrow Council Trading Structure

Name	Legal Structure	Date Started Trading
Concilium Group Limited (Holding Company)	UK Limited Company	November 2015
Concilium Business Services Limited	UK Limited Company	November 2015
Sancroft Community Care Limited	UK Limited Company	January 2018
Concilium Assets LLP	Limited Liability Partnership	January 2019
HB Public Law Limited	UK Limited Company	April 2015

2. These entities have been set up to provide a financial or other benefit to the council whilst enabling it to undertake specific commercial activities. Harrow Council therefore either directly or indirectly holds a 100% controlling interest in each of the five trading entities.

Background

3. Concilium Group Ltd. is a wholly owned commercial subsidiary of the council, set up with the dual purpose of consolidating the financials of further subsidiaries and to act as a the minority partner in a council controlled Limited Liability partnership (Concilium Assets LLP). In effect, this is in effect a council owned holding vehicle.
4. Concillium Business Services Ltd (trading as Smart Lettings) is a wholly owned subsidiary of Concillium Group Ltd. with the principal aim of providing private lettings, property management, property administration and tenant referencing services. Until February 2019 its principal source of revenue came from the property management of 100 homes, managed on behalf of Harrow Council and its activities are now kept to a minimum.
5. Sancroft Community Care Ltd. Is another wholly owned subsidiary of Concilium Group Ltd. and was set up to take over the operation of the now 62 bed residential care home for the elderly. 45 of these beds are block contracted with the London Borough of Harrow under a five year contract.
6. Concilium Assets LLP (The LLP) is a Limited Liability Partnership owned 95% by Harrow and 5% by Concilium Group Ltd. and was set up to enable direct private rental sector (PRS) property investment activities. 53 PRS units on Gayton Road were transferred to the LLP in July 2019 on a 10 year lease for rent to the private market.

7. The formation of HB Public Law Ltd. was formally approved by Cabinet on 13th November 2014 (began trading in 2015) and is set up as a council owned company which has been granted an Alternative Business Structure licence from the Solicitor's Regulatory Authority. This was in order to be able to carry out legal work which the shared service is prevented from undertaking by professional conduct rules.

Financial Implications

8. The accounting year end for all of these entities is the 31st March in line with the council's year end; this report references detail for financial years ended 2019 and 2020 along with a summary for financial years ended 2021, 2022 and 2023
9. Unaudited financial reports for the year ended 31st March 2019 (The last full financial year) are yet to be published for Concilium Group Limited, Concilium Business Services Limited, Sancroft Community Care Limited and HB Public Law Ltd whilst Concilium Assets LLP was yet to begin trading. The most recent provisional financial results have therefore been summarised in the table 3 at the end of this report and may be subject to minor changes upon preparation of the final accounts and finalisation of the audits.
10. The detailed annual forecast position to 31st March 2020 for all of the council trading entities excluding H.B Public Law Ltd. has been summarised in Table 4.
11. The annual forecast position for all of the council's trading entities excluding H.B Public Law Ltd. has been summarised in Table 5, for financial years 2020/21, 2021/22 and 2022/23 in line with the respective business plans.

Concilium Business Services Ltd.

12. Concilium Business Services Ltd has undergone a strategic change of direction and the details were presented as part of the P2 savings tracker to Cabinet in July 2019. As a result, CBS Ltd. is now only responsible for the legal ownership of 6 homes. CBS Ltd. shall retain 5% of the income collected from these tenants, distributing the remaining 95% back to the council.
13. The future financial position in Table 5 assumes that Concilium Business Services Limited shall remain active with minimal activities, and shall have re-let the Smart Lettings shop before 31st March 2020. Both of these assumptions may be subject to change in the future.

Sancroft Community Care Ltd.

14. The latest financial information is available for Sancroft Community Care Ltd as at the end of its first year of trading. A financial summary of Sancroft's performance against its business plan (budget) is presented as follows in Table 2.

Table 2: Sancroft Forecast Annual Position to 31st March 2020

<i>Negative/(Positive)</i>	Full year Forecast*	Annual Budget	Forecast Budget Variance
Total Income	(2,301,838)	(2,299,000)	(2,838)
Total Expenditure	2,210,548	2,208,000	2,548
(Net Profit)/Loss	(91,290)	(91,000)	(290)

15. The full business plan (refreshed) for Sancroft Community Care Ltd. was presented as Appendix 8 (exempt) to the 12th September 2019 Cabinet report and approved along with the detailed quarterly performance against budget for Q1 2019/20 as Appendix 7 (exempt).

16. The figures presented in tables 3, 4 and 5 have not included the impact of corporation tax, only summarising the companies trading position. For all of the limited companies, tax should therefore be considered to be taken after profit has been calculated and will reduce the retained earnings distributable to the council.

Concilium Assets LLP

17. Concilium Assets LLP has had its first year of trading extended for commercial reasons and its prior year shortened. Dormant accounts were therefore filed for the 9 months ended 31st December 2018 and for accounting purposes the LLP has been trading since 1st January 2019 and will prepare accounts to the 15 months ended 31st March 2020.

18. The final business plan including financial model for Concilium Assets LLP was included as Appendix 9 (exempt) to the September Cabinet report and approved by Cabinet on 12th September 2019. The figures reported in Tables 4 and 5 are a reflection of the final approved business plan.

19. Performance against the LLP's business plan is reported below, showing a favourable position due to effective cost-management and a faster take-up of rental tenancies than anticipated in the business plan.

<i>Negative/(Positive)</i>	Full year Forecast	Annual Budget (B-Plan)	Forecast Budget Variance
Total Income	(547,861)	(481,972)	(65,889)
Total Variable Costs	75,500	75,026	474
Total Fixed Costs	361,554	357,753	3,801
(Net Profit)/Loss	(110,807)	(49,192)	(61,615)

20. Both net profit and retained earnings strip out the impact of council distributions to illustrate the LLP's positive cumulative financial benefits. In practice, the council charge the LLP a set percentage of the LLP's income, to be accounted for as an LLP variable expense. The remaining profit is distributed back to the council as a dividend. The full position for the LLP including these distributions is published in the business plan and included in the council's MTFS.

HB Public Law Ltd.

21. In 2018/19 the company recorded a gross profit of £3,794 on a turnover of £15,027.

Funding Arrangements

22. Concilium Assets LLP has been granted a start-up loan of £175,000 and fully drawn down in 2019. An additional short term loan facility to the LLP of up to £250k was approved by Cabinet in July 2019 of which only £100k was drawn down. The loan shall be repaid in full before March 2020, ahead of business plan projections.

23. Following arrangements to transfer responsibility back to the authority, the loan given to Concilium Business Services Ltd along with other council creditors and accumulated interest was written off in 2018/19 and quantified as an adjustment in Table 3.

24. A cash flow loan of £40,000 was advanced to HB Public Law Ltd in 2015 on commercial terms. To date £27,000 of capital and £7,354 interest has been repaid to Harrow Council.

Harrow Council Commercial Structure

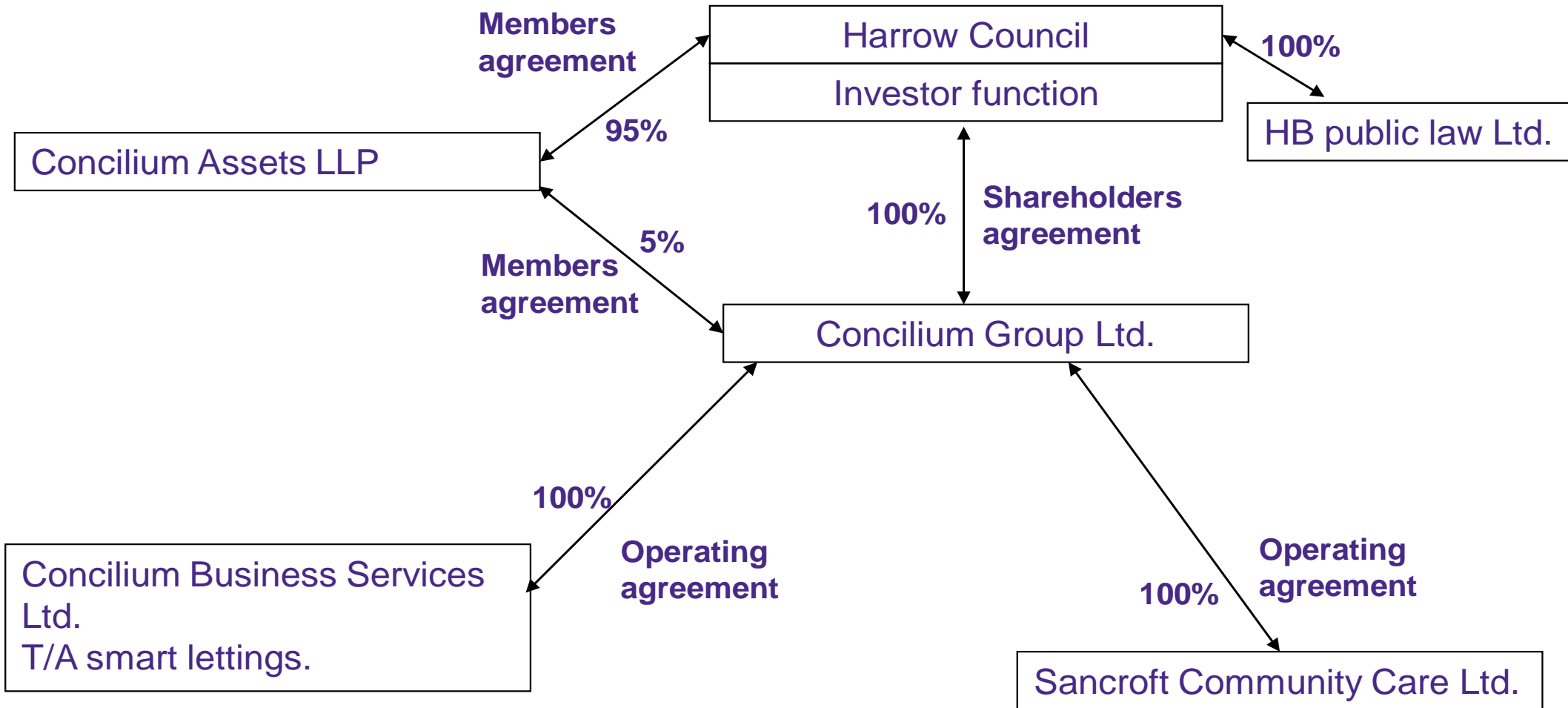


Table 3: Trading Structure Full Year Position to 31st March 2019

£ Negative/(£ Positive)	Concilium Business Services Ltd	Concilium Group Ltd	Sancroft Community Care Ltd	Aggregate Position
Income	(111,000)		(2,227,564)	(2,338,564)
Direct and Administrative Expenditure	137,000	500	2,273,228	2,410,728
(Net Profit)/Loss	26,000	500	45,664	72,164
Adjustment*	(333,481)			(333,481)
Retained Earnings c/f	113,124	5,782	45,664	164,570

*The £333k adjustment is the write off of the £284k loan from the council plus accumulated interest of £28,415. The council also wrote off an outstanding invoice to CBS Ltd of £21,328 from prior years, however this was never represented in accounts of CBS Ltd. so the net result of recognising the expense then writing it off is net-nil to the bottom line.

Table 4: Trading Structure Full Year Forecast to 31st March 2020

£ Negative/(£ Positive)	Concilium Business Services Ltd	Concilium Group Ltd	Sancroft Community Care Ltd	Concilium Assets LLP	Aggregate Position
Income	(100,000)		(2,301,838)	(547,861)	(2,949,699)
Direct and Administrative Expenditure	132,400	500	2,210,548	437,054	2,780,502
(Net Profit)/Loss*	32,400	500	(91,290)	(110,807)	(169,197)
Retained Earnings c/f	145,524	6,282	(45,626)	(110,807)	(4,627)

*Figures are subject to rounding to nearest thousand

Table 5: Trading Structure Full Year Forecast for MTFS

£ Negative/(£ Positive)	Concilium Business Services Ltd	Concilium Group Ltd	Sancroft Community Care Ltd	Concilium Assets LLP	Aggregate Position
Retained Earnings b/f	145,524	6,282	(45,336)	(110,807)	(4,337)
(Net Profit)/Loss - 2020/21	(5,000)	500	(95,000)	(477,635)	(577,135)
(Net Profit)/Loss - 2021/22	(5,000)	500	(115,000)	(543,861)	(663,361)
(Net Profit)/Loss - 2022/23	(5,000)	500	(136,000)	(656,253)	(796,753)
Retained Earnings c/f	130,524	7,782	(391,336)	(1,788,556)	(2,041,586)