

Appendix 6 – Council Trading Company Update 2019/20, Quarter 3

Introduction

1. As at Quarter 3 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 its subsidiaries and to act as a the minority partner in a council controlled Limited Liability partnership (Concilium Assets LLP). In effect, Concilium Group is a council owned holding vehicle.
4. Concillium Business Services Ltd (previously 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. Audited financial reports have now been finalised and published for the year ended 31st March 2019 for Concilium Business Services Limited and Sancroft Community Care Limited. For reporting purposes, Concilium Group Limited has been filed as a dormant entity for the year ended 31st March 2019. Concilium Assets LLP was yet to start trading as at this date. The published financial position for the audited entities has been summarised in Table 4.
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 5.
11. The annual forecast position for all of the council's trading entities excluding H.B Public Law Ltd. has been summarised in Table 6, 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 part two 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 entity is now trading as a principal as opposed to an agent, thus retaining legal ownership of these properties and not charging a management fee or undertaking any property management/agency activities.
14. The future financial position in Table 6 assumes that Concilium Business Services Limited shall remain active with minimal activities which may be subject to change in the coming years as there is a view to winding down the company.
15. The Smart Lettings shop lease has been terminated as at 7th January 2020 via an agreement with the landlord, CBS Ltd. now has very minimal overheads.

Sancroft Community Care Ltd.

16. The latest audited financial information is available for Sancroft Community Care Ltd as at the end of its first year of trading, summarised in Table 3 at the end of this report. 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	(2,298,379)	(2,299,097)	718
Total Expenditure	2,202,846	2,208,526	(5,680)
(Net Profit)/Loss	(95,533)	(90,571)	(4,962)

17. 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).

18. The council recently committed to undertaking a number of repair works as per its obligation in the lease agreement.

Concilium Assets LLP

19. 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.

20. The final business plan including financial model for Concilium Assets LLP was included as Appendix 9 (exempt) to the 12th September Cabinet report and approved by Cabinet. The figures reported in Table 6 are a reflection of the final approved business plan.

21. Performance against the LLP's business plan this year is reported below in Table 3, showing a favourable position due to effective cost-management and a faster take-up of rental tenancies than anticipated in the business plan.

Table 3: LLP Forecast annual position to 31st March 2020

<i>Negative/(Positive)</i>	Full year Forecast	Annual Budget (B-Plan)	Forecast Budget Variance
Total Income	(709,393)	(670,613)	(65,889)
Total Variable Costs	175,670	188,641	474
Total Fixed Costs	428,388	432,780	3,801
(Net Profit)/Loss	(105,335)	(49,192)	(61,615)

22. 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 (the lease rent), 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.

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

Funding Arrangements

24. 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.

25. As at Quarter 3, Concilium Assets LLP has repaid £175k of the total £275k drawn down. The remaining £100k along with interest costs shall be settled in advance of the end of the financial year.

26. 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 within the 2018/19 year end position presented in Table 4.

27. 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

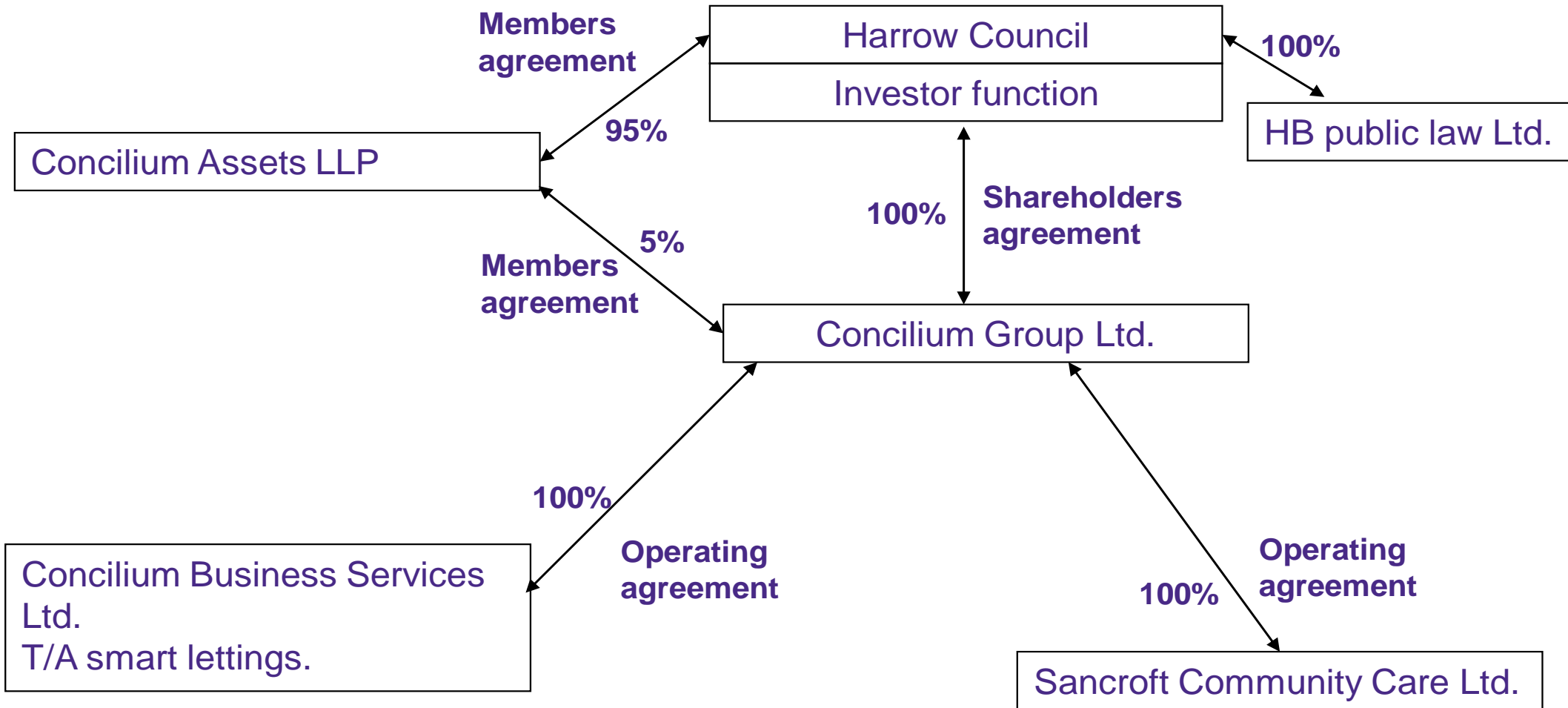


Table 4: Trading Structure Full Year Position to 31st March 2019 - Audited

£ Negative/(£ Positive)	Concilium Business Services Ltd	Concilium Group Ltd	Sancroft Community Care Ltd	Aggregate Position
Income	(109,803)		(2,198,000)	(2,307,803)
Direct and Administrative Expenditure	(350,320)*	500	2,253,000	1,903,180
(Net Profit)/Loss	(460,123)	500	55,000	(404,623)
Retained Earnings c/f	(31,196)**	5,372	55,000	29,176

* £284k loan from the council plus accumulated interest of £28,415 and an outstanding CBS ltd invoice from Harrow Council were written off in 2018/19. The figure also reflects a number of accounting adjustments including de-recognition of some prior year costs and a write-back of the shop rent payable due to the preparation of accounts now on a going-concern basis.

** This figure is net of a £8,322 corporation tax payment. This has not been distributed to the council due to financial commitments in 2019/20

Table 5: 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	(130,000)	0	(2,298,379)	(709,393)	(3,137,772)
Direct and Administrative Expenditure	160,000	1,000	2,202,846	604,058	2,967,904
(Net Profit)/Loss*	30,000	1,000	(95,533)	(105,335)	(169,868)
Retained Earnings c/f	(1,196)	6,372	(40,533)	(105,335)	(140,692)

*Loss figure appears due to payment of shop rent up to 7th January 2020 along with the costs associated with the shop termination deal

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	(1,196)	6,372	(40,533)	(105,335)	(140,692)
(Net Profit)/Loss - 2020/21	(5,000)	1,000	(95,000)	(478,636)	(577,636)
(Net Profit)/Loss - 2021/22	(5,000)	1,000	(115,000)	(543,861)	(662,861)
(Net Profit)/Loss - 2022/23	(5,000)	1,000	(136,000)	(656,253)	(796,253)
Retained Earnings c/f	(16,196)	9,372	(386,533)	(1,784,085)	(2,177,442)