

Appendix 5 – Council Trading Company Final Update 2021-22

Introduction

1. As at the end of financial year 2021-22, 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 financial results.

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 |
| Harrow Strategic Development Partnership LLP | Limited Liability Partnership | March 2021 |

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.
3. The Council's interests in these entities are not material for the purposes of the financial statements. The Council's financial statements do not therefore include group accounts.

Background

4. 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 the minority partner in a Council controlled Limited Liability Partnership (Concilium Assets LLP).
5. Concillium Business Services Ltd is a wholly owned subsidiary of Concillium Group Ltd. Until February 2019 its principal source of revenue came from the property management of 100 homes, managed on behalf of Harrow Council. Its activities are now kept to a minimum.
6. Sancroft Community Care Ltd is a wholly owned subsidiary of Concilium Group Ltd. The company took over the operation of the residential care home for the elderly situated on Sancroft Road, Harrow on 8th February 2018. Of the care home's 62 beds, 45 are block contracted with the London Borough of Harrow for five years.
7. Concilium Assets LLP is a Limited Liability Partnership owned 95% by Harrow and 5% by Concilium Group Ltd, 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.

8. Harrow Strategic Development Partnership LLP (HSDP LLP) is a Limited Liability Partnership owned 50% by Harrow and 50% by Wates Construction Limited, set up to facilitate the development of Council assets at Poets Corner, Peel Road and Byron Quarter phase 1 as per the Council's Regeneration Programme. The Council's investment in the LLP will primarily be the transfer of the land once individual schemes are ready to commence.

Financial Implications

9. The accounting year end for all of these entities is 31st March in line with the Council's year end. This report references detail for financial years ended 2021 along with a summary for financial years ended 2022 and 2023.
10. Financial accounts have been prepared for the year ended 31st March 2021 for Sancroft Community Care Limited, Concilium Assets LLP, Concilium Group Limited and Concilium Business Services Limited. The audits of the accounts of Sancroft Community Care Limited, Concilium Assets LLP and Concilium Group Limited have been completed. The audit of the accounts of Concilium Business Services Limited is underway. For reporting purposes, Concilium Group Limited is classified as a dormant entity. The financial position for the companies for the year ending 31st March 2021 is summarised in Table 4. The first set of accounts for HSDP LLP will be completed for the year ending 31st March 2022.
11. The detailed annual forecast position to 31st March 2022 for the council's trading structure has been summarised in Table 5. These figures have not yet been subject to audit.
12. The annual forecast position for the council's trading structure has been summarised in Table 6. The table covers financial years 2020-21, 2021-22 and 2022-23 in line with the respective business plans.

Concilium Business Services Ltd

13. Concilium Business Services Ltd underwent 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, the company is now only responsible for the management of 2 homes. The company retains 5% of the income collected from tenants and distributes the remaining 95% back to the Council.
14. The 5% retained income from tenants is insufficient to cover the company's running costs. Various options are now being considered for the company to be wound up. The future financial position in Table 6 assumes that Concilium Business Services Limited will be closed by the end of the 2022-23 financial year.

Sancroft Community Care Ltd

15. The audited financial information for Sancroft Community Care Ltd for the year ending 31st March 2021 is summarised in Table 4 at the end of this report. A financial summary of Sancroft's performance against its business plan (budget) for 2021/22 is presented in Table 2 below.

Table 2: Sancroft Forecast Annual Position as at 31st March 2022

| <i>Negative/(Positive)</i> | Full year Forecast | Annual Budget | Forecast Budget Variance |
|----------------------------|--------------------|-----------------|--------------------------|
| Total Income | (2,509,813) | (2,415,200) | (94,613) |
| Total Expenditure | 2,363,759 | 2,369,236 | (5,477) |
| (Net Profit)/Loss | (146,054) | (45,964) | (100,090) |

16. The full business plan (refreshed) for Sancroft Community Care Ltd was presented as Appendix 7 (exempt) to the 23rd September 2021 Cabinet report and approved along with the quarterly performance against budget for Q1 2021/22 as Appendix 6.

17. There is uncertainty over the forecast caused by current high levels of inflation impacting the cost of energy and food.

Concilium Assets LLP

18. Concilium Assets LLP has been trading since 1st January 2019 and has prepared audited accounts for the 15 months ended 31st March 2020 and the year ended 31st March 2021.

19. The full business plan (refreshed) for Concilium Assets LLP was included as Appendix 8 (exempt) to the 23rd September 2021 Cabinet report and approved along with the quarterly performance against budget for Q1 2021-22 as Appendix 6.

20. Performance against the LLP's business plan this year is reported below in Table 3. Results for the quarter are in line with the annual budget.

Table 3: LLP Forecast Annual Position as at 31st March 2022

| <i>Negative/(Positive)</i> | Full year Forecast | Annual Budget (B-Plan) | Forecast Budget Variance |
|----------------------------|--------------------|------------------------|--------------------------|
| Total Income | (1,136,438) | (1,061,991) | (74,447) |
| Total Expenditure* | 910,206 | 913,765 | (3,559) |
| (Net Profit)/Loss | (226,232) | (148,226) | (78,006) |

* See paragraphs 21 - 23 below

21. The Council charges the LLP 33% of its turnover (the lease rent) which is accounted for as an expense in the accounts of the LLP. This expense was not included in the original business plan however it has been reflected in the refreshed business plan approved by Cabinet on 23rd September 2021. The lease rent is a direct benefit to the Council and is included in the MTFs.

22. The LLP accounts for 2019/20 include a technical adjustment spreading lease rent payments to the Council over the full term of the lease rather than accounting for them on a cash basis. The value of this adjustment for 2019/20 is £199,687 resulting in a loss in the audited company accounts for 2019/20 of £74,755. The £199,687 adjustment will be offset by rental income received in future years.

23. Any remaining profit is distributed back to the council as a dividend. The position for the LLP including these distributions is published in the business plan and included in the council's MTFs. The amount paid to the Council in respect of lease rent and dividend for 2021/22 was £406k.

Funding Arrangements

24. Concilium Assets LLP was granted a start-up loan of £175,000 which was 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. These loans were repaid in full before March 2020, ahead of business plan projections.

Harrow Council Commercial Structure

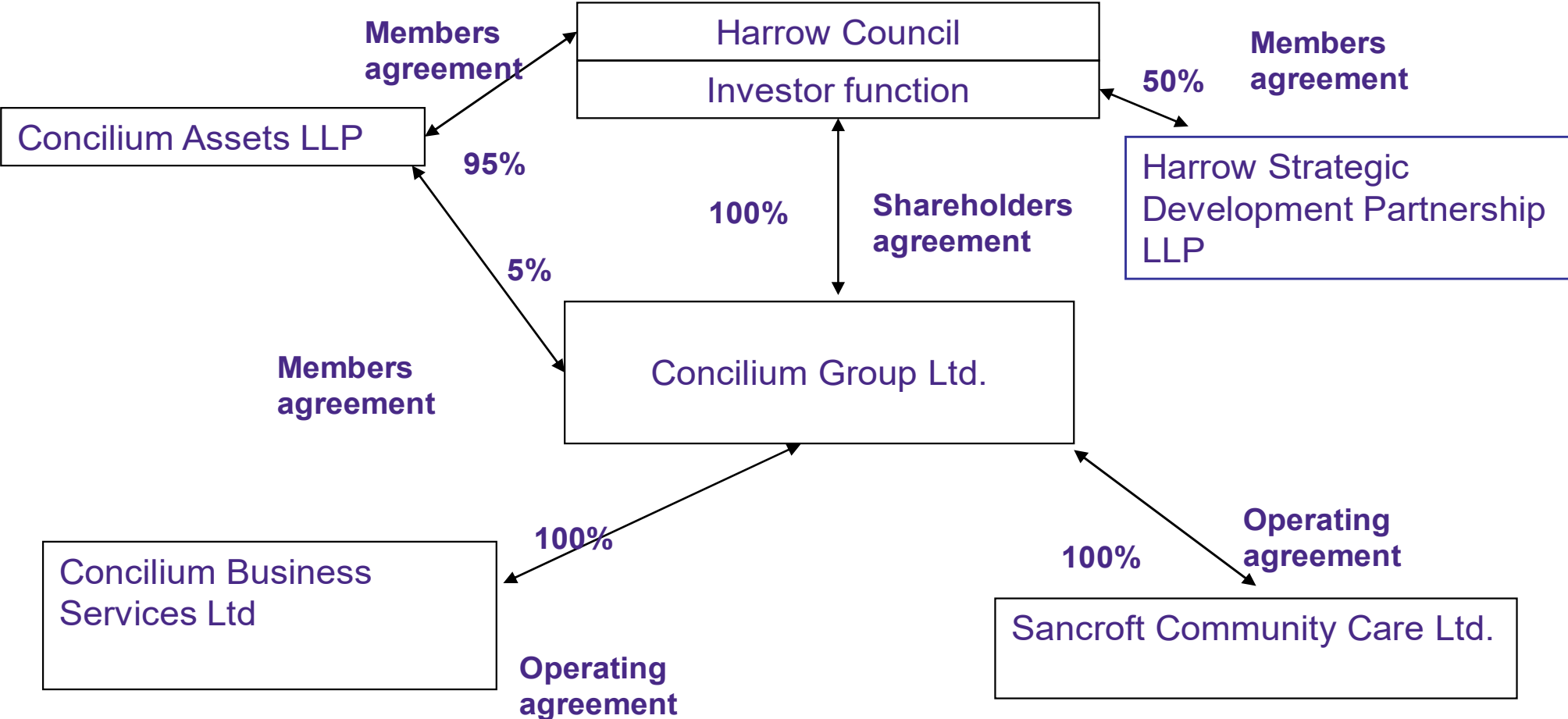


Table 4: Trading Structure Full Year Position to 31st March 2021

| £ Negative/(£ Positive) | Concilium Business Services Ltd | Concilium Group Ltd | Sancroft Community Care Ltd | Concilium Assets LLP | Aggregate Position |
|---------------------------------------|---------------------------------|---------------------|-----------------------------|----------------------|--------------------|
| Income | (73,618) | 0 | (2,366,830) | (1,080,945) | (3,374,157) |
| Direct and Administrative Expenditure | 79,363 | 1,200 | 2,320,179 | 1,061,890 | 3,462,632 |
| (Net Profit)/Loss | 5,745 | 1,200 | (46,651) | (19,055) | (58,761) |
| Retained Earnings c/f | (15,252) | 7,924 | (56,130) | 55,700 | (7,758) |

Table 5: Trading Structure Full Year Forecast to 31st March 2022 - unaudited

| £ Negative/(£ Positive) | Concilium Business Services Ltd | Concilium Group Ltd | Sancroft Community Care Ltd | Concilium Assets LLP | Aggregate Position |
|---------------------------------------|---------------------------------|---------------------|-----------------------------|----------------------|--------------------|
| Income | (40,000) | 0 | (2,509,813) | (1,136,438) | (3,686,251) |
| Direct and Administrative Expenditure | 55,252 | 3,000 | 2,363,759 | 910,206 | 3,332,217 |
| (Net Profit)/Loss | 15,252 | 3,000 | (146,054) | (226,232) | (354,034) |
| Retained Earnings c/f | 0 | 10,924 | (202,184) | (170,532) | (361,792) |

Table 6: 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 | (15,252) | 7,924 | (56,130) | 55,700 | (7,758) |
| (Net Profit)/Loss - 2021/22 | 15,252 | 3,000 | (146,054) | (226,232) | (354,034) |
| (Net Profit)/Loss - 2022/23 | - | 3,000 | (24,472) | (32,237) | (53,709) |
| Retained Earnings c/f | 0 | 13,924 | (226,656) | (202,769) | (415,501) |