SHAREHOLDER REPORT

29th April 2021

INTRODUCTION

In light of the Council's journey to becoming an efficient, effective and financially sustainable council, coupled with the impact of the Covid-19 pandemic on the retail sector, it has become critical to review the position of the private retail company (YourCare).

At the end of the 20/21 Financial year, Yourcare has a debt of £270k and cumulated losses of £238k. There is currently a provision for doubtfull debt in place and a prior year adjustment which should minimise the financial impact for the Council.

The shareholder is recommended to

- Agree to closing down the activities of YourCare (Croydon) Limited. YourCare (Croydon) Limited will cease trading and all assets will be disposed of.

- Agree to the appointment of an authorised insolvency practitioner as liquidator to take charge of liquidating the company.

1. EXECUTIVE SUMMARY

YourCare (Croydon) Limited started traded in April 2018 with the ambitious target of being the retailer of choice for daily living equipment in Croydon. YourCare (Croydon) Limited was to build on the Community Equipment Service (CES) excellent local reputation and develop a strong website offering for Croydon and other local authorities.

Whilst at the time of its creation there was a clear rationale and opportunity for the development of a retail model, complementing CES business operations, the current adverse market conditions have made it unsustainable for YourCare to continue trading.

The initial business plan presented to members in November 2017, assumed breakeven in the third year of operation (2019/20) with cumulated loss of £217k.

Even though key progress has been made in developing YourCare into a succesfulll business a number of external factors have prevented YourCare from achieving the expected return. Among those factors we can identify:

- The 2 year delay in moving to a fit for purpose facility. Having a fit for purpose facility was a key requisite for delivering the YourCare business strategy.
- The delayed move coincided with the Covid-19 crisis and 3 succesive lockdowns preventing YourCare from benefitting of its new facilities
- The ongoing Covid-19 crisis and its short, medium and long term impact on the retail sector.
- The UK falling into recession due to the COVID-19 crisis with GDP slumping by as much as 20% in the quarter to June 2020.

- Supply chain challenges (Brexit, Steel and foam shortages) have severely impacted sales volume
- As a shareholder, Croydon Council is facing significant financial challenges and is taking steps to rationalise its spend and investment.

An option appraisal was undertaken by the board of directors last year to assess the viability of YourCare and implement necessary adjustment. Since then the position has worsened and it is therefore necessary to undertake another review.

This report will set out the options available to YourCare and the rationale for the recommendations made.

2. DETAIL

2.1 Progress to date

YourCare's three core priorities were as follows: .

- Provide a viable alternative provision to self-funders for simple aids to support the preventative agenda and to establish YourCare as the "go to" provider for all
- Establish YourCare across all existing and new CES partnerships as a benchmark model for self-funding clients.
- Establish third Party Partnerships (Care Homes, Suppliers etc.)

A key requisite for delivering these priorites was to have a fit for purpose premises from which to operate and trade. The business plan agreed by cabinet assumed that YourCare was to move within 12 months of its launch to the new purpose built premises in order to deliver a breakeven position in year 3 of operation.

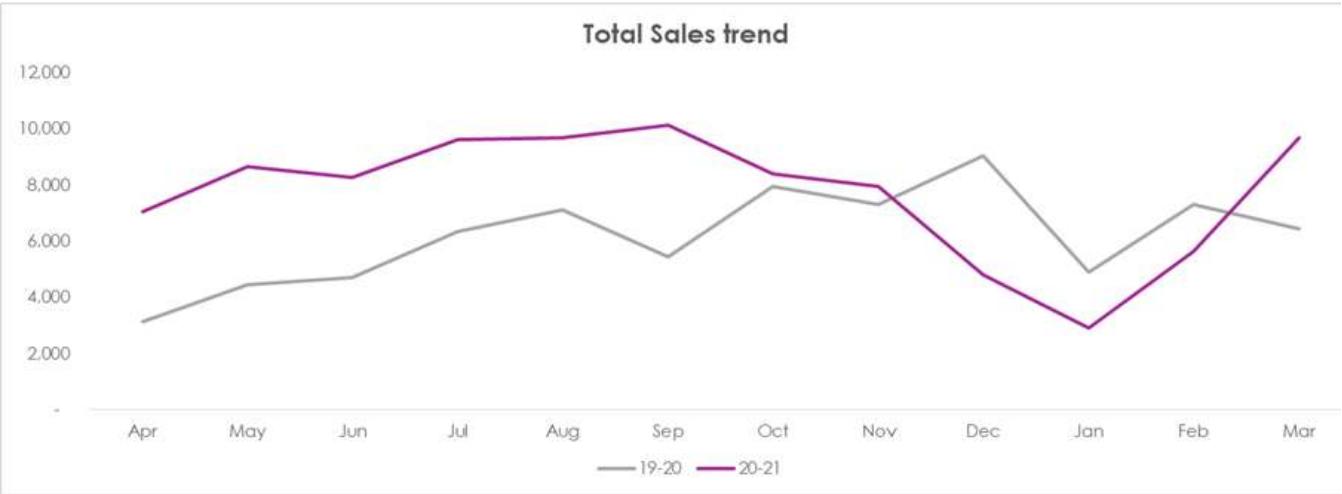
Table1: YourCare 2017 Business plan

	2017/18	2018/19	2019/20	2020/21	2021/22
	Year 1	Year 2	Year 3	Year 4	Year 5
	£'s	£'s	£'s	£'s	£'s
Sales Income	160,000	406,666	728,665	1,234,999	1,969,999
Cost of sales	(224,311)	(370,492)	(614,090)	(987,178)	(1,513,366)
Gross margin	(64,311)	36,174	114,575	247,821	456,633
Direct cost	(22,955)	(76,865)	(45,265)	(49,385)	(55,409)
Overheads	(38,775)	(54,230)	(65,557)	(70,535)	(85,881)
Net profit/(loss)	(126,040)	(94,920)	3,753	127,901	315,343
Cumulated profit/(loss)	(126,040)	(220,960)	(217,207)	(89,306)	226,037

The move to a new purpose built facility was delayed until March 2020 in the midst of the Coronavirus pandemic. This delay compounded with the Covid-19 global

crisis and its devastating impact on the retail market has caused us to reconsider the expected growth for YourCare and its business model.
3 consecutives lockdown have forced us to focus on an online only model and capitalize on the growth of this channel while reducing cost.
Unfortunately a numer of global factors (Brexit, shortage of foam and steel) have caused significant disruption in the supply chain resulting in YourCare being unable to fulfill orders and online sales.

Table 2: YourCare sales trend (19/20 vs 20/21)



Despite a very challenging environment marked by a global pandemic, global supply chain disruption and economic recession, sales for YourCare have grown with full year revenue expected to be 25% ahead of last year (shop -50%, online +140%).

Table 3: YourCare online marketing return and user volume trend

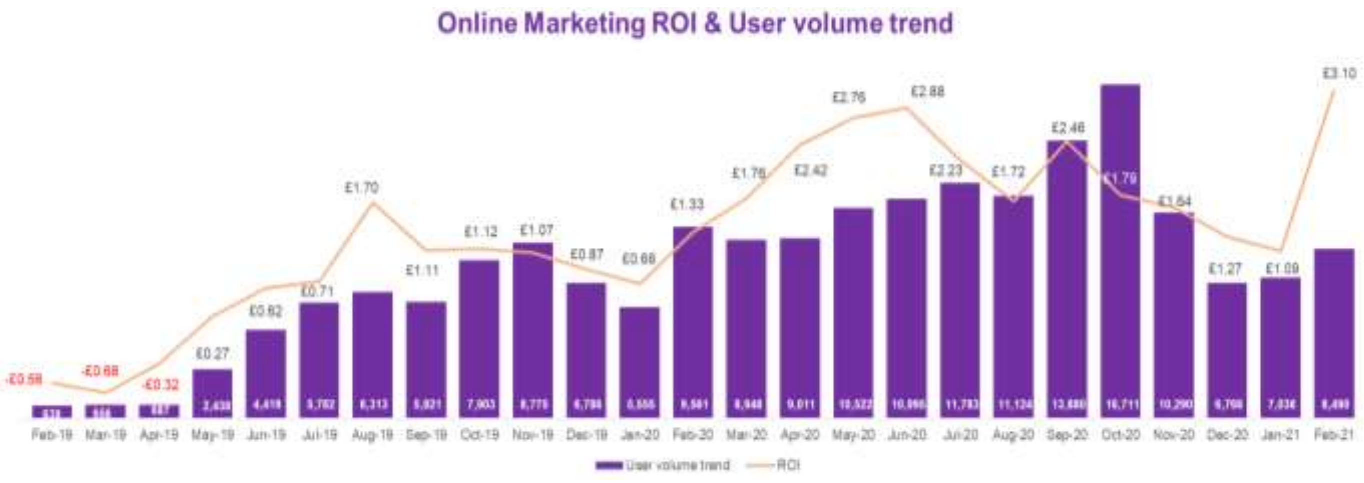


Table 4: YourCare P&L (18/19-20/21)

	2018/19 Actual	2019/20 Actual	2020/21 Actual
Shop	52,837	44,910	22,330
Online	9,342	29,386	70,554
Income	**62,179**	**74,296**	**92,883**
% YoY Growth	-	*19%*	*25%*
Cost of Sale	39,574	53,621	73,658
% of Income	*64%*	*72%*	*79%*
Gross Margin	**22,605**	**20,675**	**19,226**
Gross margin %	*36%*	*28%*	*21%*
Direct Cost	**82,232**	**108,710**	**109,531**
Net Profit/(Loss)	**(59,627)**	**(88,035)**	**(90,305)**
Cumulative Profit/(Loss)	**(59,627)**	**(147,662)**	**(237,967)**
CES Debt	**(28,332)**	**(97,668)**	**(189,020)**
LBC loan	**(83,400)**	**(86,945)**	**(80,640)**
Total Debt	**(111,732)**	**(184,612)**	**(269,660)**

The FY position at he end of 20/21 is expectd to be a loss of £90k, bringing cumulative losses to £238k, with debt of £270k.

2.2 Options appraisal and recommendation

YourCare set out with an ambitious target of being the retailer of choice for daily living equipment. Now in its third year of operation, a lot of progress has been made, but the landscape has also vastly changed with:

- Croydon Council facing significant financial challenges
- The UK falling into recession due to the COVID-19 crisis with GDP slumping by 24%
- The ongoing Covid-19 crisis and its short, medium and long term impact on the retail sector

At a time where we need to rationalize our resources, we believe that there is a need to review our business model and its viability . The board of directors has previously conducted a review of the business model with the recommendation of the online only model. However since this recommendation, the trading conditions have worsened and sales growth have been negatively impacted.
Based on the assesment of the economic environment and the progress made so far the options under consideration are:

- Option 1 : Keep the current business model (Online only)
- Option 2 : Close down the business

2.2.1 Option1: Keep the current business model (Online only)

Table 5: YourCare P&L online only option

	2018/19 Actual	2019/20 Actual	2020/21 Actual	21/22 Budget	22/23 Budget	23/24 Budget	24/25 Budget
Shop	52,837	44,910	22,330	-	-	-	-
Online	9,342	29,386	70,554	149,880	217,325	304,255	425,958
Income	**62,179**	**74,296**	**92,883**	**149,880**	**217,325**	**304,255**	**425,958**
% YoY Growth	-	*19%*	*25%*	*61%*	*45%*	*40%*	*40%*
Cost of Sale	39,574	53,621	73,658	118,405	162,994	212,979	298,170
% of Income	*64%*	*72%*	*79%*	*79%*	*75%*	*70%*	*70%*
Gross Margin	**22,605**	**20,675**	**19,226**	**31,475**	**54,331**	**91,277**	**127,787**
Gross margin %	*36%*	*28%*	*21%*	*21%*	*25%*	*30%*	*30%*
Direct Cost	**82,232**	**108,710**	**109,531**	**115,368**	**114,246**	**119,775**	**125,702**
Net Profit/(Loss)	**(59,627)**	**(88,035)**	**(90,305)**	**(83,893)**	**(59,915)**	**(28,498)**	**2,085**
Cumulative Profit/(L	**(59,627)**	**(147,662)**	**(237,967)**	**(321,860)**	**(381,774)**	**(410,273)**	**(408,188)**
CES Debt	**(28,332)**	**(97,668)**	**(189,020)**	**(270,826)**	**(348,205)**	**(419,501)**	**(480,693)**
LBC loan	**(83,400)**	**(86,945)**	**(80,640)**	**(57,937)**	**0**	**0**	**0**
Total Debt	**(111,732)**	**(184,612)**	**(269,660)**	**(328,763)**	**(348,205)**	**(419,501)**	**(480,693)**

Strengths

- Capitalize on growing channel and new customer behaviour
- Reduced running cost, debts and losses
- Maintain “retail model” as part of the CES offer

Weaknesses

- Single sales channel
- Brand awareness
- Trajectory of 4 years to break even with cumulated losses of £408k and debt of £481k
- Additional online marketing will be necessary to drive improved online income
- Existing website is not as dynamic as key competitors, and will require further investments to be a viable contender.

Opportunities

- Grow online presence
- Prescribers pathway with existing partners
- Complete offering allowing CES to capture new business
- Repayment of the Council investment

Threats

- Current economic crisis impacting purchasing power of target customers
- Covid-19 pandemic long term impact on the retail sector
- More established competitors (CareCo, CompleteCare)
- Shareholder financial position

2.2.2 Option 2: Close down the business

Table 6: YourCare P&L Close down option

	2018/19 Actual	2019/20 Actual	2020/21 Actual	21/22 Budget
Shop	52,837	44,910	22,330	-
Online	9,342	29,386	70,554	74,940
Income	**62,179**	**74,296**	**92,883**	**74,940**
% YoY Growth	-	*19%*	*25%*	*-19%*
Cost of Sale	39,574	53,621	73,658	59,202
% of Income	*64%*	*72%*	*79%*	*79%*
Gross Margin	**22,605**	**20,675**	**19,226**	**15,737**
Gross margin %	*36%*	*28%*	*21%*	*21%*
Direct Cost	**82,232**	**108,710**	**109,531**	**57,684**
Net Profit/(Loss)	**(59,627)**	**(88,035)**	**(90,305)**	**(41,946)**
Cumulative Profit/(Loss)	**(59,627)**	**(147,662)**	**(237,967)**	**(279,913)**
CES Debt	**(28,332)**	**(97,668)**	**(189,020)**	**(229,923)**
LBC loan	**(83,400)**	**(86,945)**	**(80,640)**	**(77,127)**
Total Debt	**(111,732)**	**(184,612)**	**(269,660)**	**(307,050)**

Strengths
- Elimination of any further financial risk for the Council

Weaknesses
- Inability to take advantage of any change in the market conditions
- Prevent any return on Council investment
- Hinders CES growth with lack of “retail model”

Opportunities
- Management time to be solely focused on CES growth opportunities

Threats
- Potential of having to start all over again in a few years

3. REASONS FOR RECOMMENDATIONS/DECISIONS

The extremely challenging economic landscape coupled with the uncertainty facing the UK retail industry and the financial context of the Council means that while YourCare has shown potential, the Council can no longer afford to have a retail business still in its infancy and 3 years removed from breaking even.

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Recent months have seen the collapse of high street giants like Arcadia group (Topshop, Burton , Dorothy Perkins) or even the 242-year-old retailer Debenhams. While at the same time, online retailer like Boohoo and Asos were able to capitalize and buy part of these high street retaillers.

It is clear that change of consumer behaviour will fuel online retail growth. The challenge for YourCare is how quickly can this growth translate into profit.
The answer is 4 years. 4 years where the risk and exposure continue to grow, to up to £481k. Given the current context of the Council's finance, such a decision will go against the principle of " living within our means" and abiding by the stringent conditions attached to the capitalisation directive.

4. HUMAN RESOURCES IMPACT

The impact on the workforce will be set out through specific proposals and the council's HR policies on consultation and managing organisational change will be followed.

We will consult with recognised trade unions in accordance with the collective bargaining arrangements on the proposals and cumulative impact across the workforce.

There are currently 5 members of staff who will be affected.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

The financial consequences arising from the recommendations are summarized in table 7 below. The exposure to the Council is likely to be minimal, given that there are provision in place within CES to absorb most of the bad debts.

Table 7: Debt impact

		As At 31 March 2021	As At 30 September 2021
		£	£
CES Debt	Staff cost & Support services	189,020	229,923
Less:	Provision for Doubtful Debt in CES	(93,668)	(93,668)
	Total CES Debt	**95,353**	**136,255**
LBC Debt	Loan	80,000	80,000
Less:	Repayment	(10,000)	(15,000)
	Interest	10,640	12,127
	Total LBC Debt	**80,640**	**77,127**
	TOTAL COUNCIL EXPOSURE BEFORE ADJUSTMENT	**175,992**	**213,383**
	CES Retained earning (17/18) not consolidated in LBC accounts	(176,302)	(176,302)
	TOTAL COUNCIL EXPOSURE	(310)	**37,081**

6. LEGAL CONSIDERATIONS

As sole shareholder, the London Borough of Croydon has the ability to make a petition for the passing of a resolution for winding up in respect of the Company. This petition will then be voted on by the board of directors.