SHAREHOLDER REPORT

29th April 2021

INTRODUCTION

YourCare is a company wholly owned by Croydon Council set up in May 2017, which started trading in April 2018. The creation of the company was agreed by a Cabinet decision on the 26 January 2017.

The commercial objective of YourCare is to be a retail company, providing independent, choice and control to self-funding customers for daily living equipment.

The Council's rationale for setting up YourCare was to offer a trusted and fast-tracked alternative to the public, while contributing to a number of important healthcare and social priorities, among others:

- ✓ Proactively supporting the demand pressures for Croydon Council in the assessment and allocation of social care resources
- ✓ Reduces Council waiting lists, particularly those people who have non-complex needs
- ✓ Supports the preventative agenda by working with non – complex clients at an earlier stage.

All activities carried out by the company are outside the scope of the Care Act, as it focuses on customers who wish to purchase privately, or are not eligible for statutory provision.

This report is produced to provide :

- An update to the shareholder on the performance to date.
- An update to the shareholder on the market conditions and the impact of the pandemic on the viability of 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. 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.

2. DETAIL

2.1 Background

All local authorities and health partners have an equipment service, linked to adult social care. This has two functions: the purchasing of equipment and the delivery and installation of equipment. This forms a core part of the health and social care offer.
The equipment services play an important role in supporting local authorities and health partners in the delivery of key agendas including managing increasing demand, integration, prevention, hospital discharge and admission avoidance.

For five years from 2011 to 2016 the Croydon equipment service was delivered through Croydon Care Solutions, the Council's Local Authority Trading Company (LATC).

A governance review of Croydon Care Solutions took place in the summer of 2015. This review identified that the company was loss making and whilst elements of the service model had potential, the structure and delivery model needed considering.

In June 2016, the Council took the strategic decision to insource the equipment service and wind down the LATC. The insourcing of the equipment service was completed in December 2016.

As part of the insourcing process, a new five year business plan was created to achieve a number of key business objectives. The main objectives of the insourcing were:

- To turnaround the service into a profitable business, bringing social and financial benefit to Croydon.
- To invest into the service in order to ensure long term sustainability and growth.
- To establish and grow the retail offer initially in Croydon and in

turn with our partner authorities.

- To position CES as a key strategic partner in the health and social care market.

The insourced structure was integrated into the Commisioning and procurement division under the name Community Equipment Service (CES). CES was to be a key provider in helping to deliver social care and health transformation programmes, including demand management, models of care and personal budget uptake. CES was uniquely positioned to offer products and services that meet needs across the whole spectrum of social care, including low level simple aids to daily living, complex aids for managing multiple conditions and cutting edge technological solutions.

2.2 The retail model

2.2.1 Policy context

The Retail Model is part of the Government's Personalisation agenda. The Retail Model relates to moving simple equipment into the retail market place so that the service users have greater choice, control and independence over their equipment provision. They can choose the product that best suits their lifestyle. If their choice costs more than the item on prescription, they can opt to pay the difference to the retailer. Consequently, where a Service User is assessed as eligible for simple aids for daily living equipment provision, they can take their prescription to a local accredited retailer who will exchange it for the items of equipment required. The model improves accessibility to these products for all users i.e. both state and self funded. The model, by opening up the market place for community equipment, empowers individuals to self-help thereby supporting the prevention and personalisation agenda.

Community Equipment providers are now required as part of tenders to support the Retail Model by offering facilities for displaying and demonstrating equipment to service user, web portals and payment system.

2.2.2 Demographic and economic context

The COMODAL market analysis estimated the overall retail value of the market (in 2011) for self funded products only to be £404 million pounds.

With public sector service provision diminishing due to reducing budgets and stringent application of the Fair Access to Care Services criteria (FACS), there is no doubt that the consumer market will grow to meet the levels of future demand.

The case for a consumer market for assisted living technology and services is getting stronger. Since the late 1980s, consecutive governments in the UK have supported the preference for people with health and social care needs to retain their independence and remain in their own homes for as long as possible. This preference is also supported by the need for people to embrace self-management and control of their own healthcare both in terms of those with long term conditions and the wider well-being agenda.

Older people are major users of health and social care services. As a consumer group, this market is set to grow significantly as the age of the population increases. This presents an enormous opportunity for those companies willing to address the needs of people as they get older.

The 2011 population estimates from the Office for National Statistics showed that :

- Over 30 per cent of the UK population was above the age of 50 and they held 80 per cent of the wealth in the country
- There was more people In the UK above the age of 60 than under 18
- By 2083 one in three people would be over 60
- Households headed by someone aged 65+ contributed about £121 billion of spending power every year. For the 50 plus group as a whole, it was Over £300 billion a year
- The spending power of the over 65s was £76 billion, and was set to grow to £127 Billion by 2030; a growth of 68%

2.2.3 Set up and structure

The evidence of a market, both local and national, supported the rationale that the Community Equipment Service should position itself in the market place as a trusted provider of all age equipment products and services. The business strategy therefore was to build a retail service through an appropriate delivery model consistent with the provisions and requirements of the council under the Care Act.

The commercial objective of the retail company was:

- To successfully trade for commercial purposes,
- Becoming the retailer of choice with private consumers of community equipment.

The scope of services to be provided was based upon assessments of the retail market place and gaps in provision. These services included the following:

- Simple aids to daily living, such as walking frames, perching stools
- Complex aids to daily living, such as beds
- Telecare stand-alone products, such as sensors and monitors
- Mobility equipment, such as mobility scooters
- Minor adaptations to properties, such as wheelchair ramps.
- Private assessments on product requirements.

Key investment and development required in order for this business model to be succesfull included the folowing:

- A fit for purpose retail outlet, including clinical assessment space and independent living centre.
- Telephony system to support incoming sales calls.
- Website (s) including online shopping and assessment capability.
- Sales and Customer Relationship management system.
- Marketing and sales strategy resource.
- Retail equipment subject matter experts and trusted assessors.
- Mail order shipping resources.

To ensure that all activities carried out by the company were outside the scope of the Care Act, the retail business would sell to the following customer base:

- Customers who are outside the borough and who wish to purchase privately from the retail service
- Customers who have been assessed by the Council as having no eligible needs, but who still wish to purchase equipment.

2.2.3.1 Company Structure and Directors

YourCare was set up as a separate limited company wholly owned by Croydon Council with the following directors:

- Sarah Ireland – Director of Communities Strategy and Commissioning
- Pratima Solanki – Director of Adults Social Care
- Lisa Taylor –Assistant Director Finance
- Rachel Soni – Head of Communities Strategy and Commissioning
- Sarah Warman – Head of Communities Strategy and Commissioning

2.2.3.2 Staff and Finance

The company operates independently from the Council with office support functions (payroll support, company secretarial support, legal services and retail staffing) being "bought" from the Council through the provision of a contract for services. The Council provides these services at market rates so that the company is not receiving state aid from the Council.

A loan facility of £250,000 from Croydon Council on commercial terms was agreed to support the initial launch activity and cashflow needs. To this date £80k of this facility has been drawn down, and £10k has been repaid.

2.3 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.)

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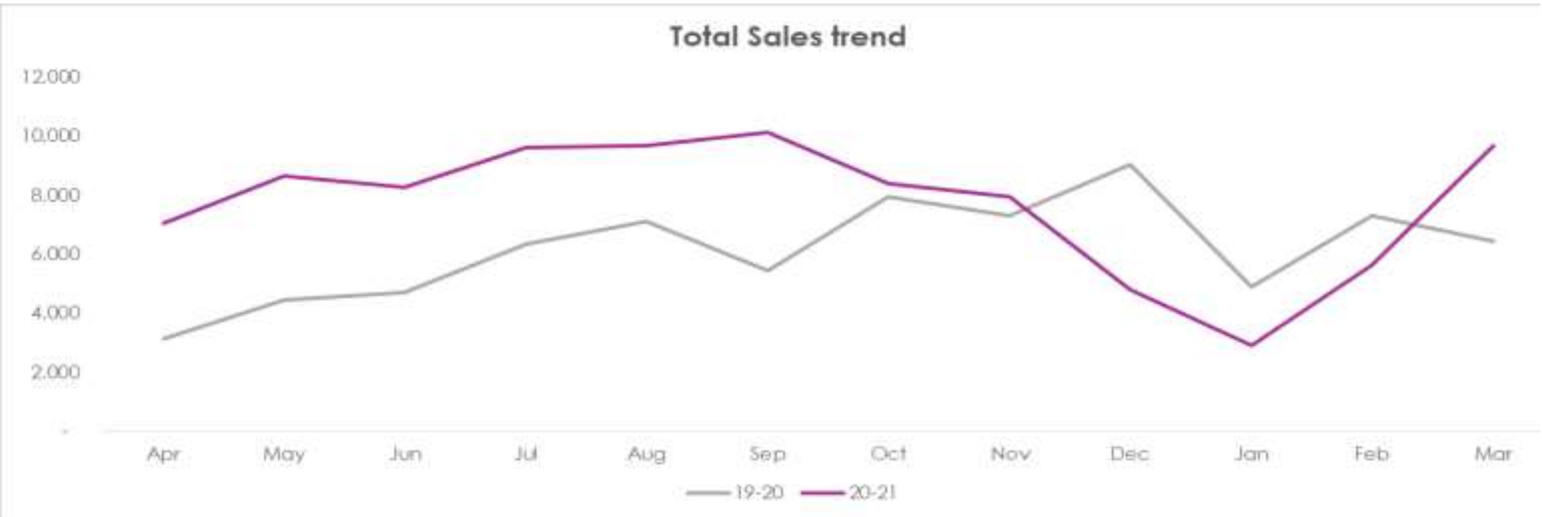
A key requisite for delivering these priorites was to have a fit for purpose premises from which to operate and trade. The business plan agreed by cabinet assumed that YourCare was to move within 12 months of its launch to the new purpose built premises in order to deliver a breakeven position in year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

Table1: YourCare 2017 Business plan

	2017/18 Year 1 £'s	2018/19 Year 2 £'s	2019/20 Year 3 £'s	2020/21 Year 4 £'s	2021/22 Year 5 £'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 other global factors (Brexit and the 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)



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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

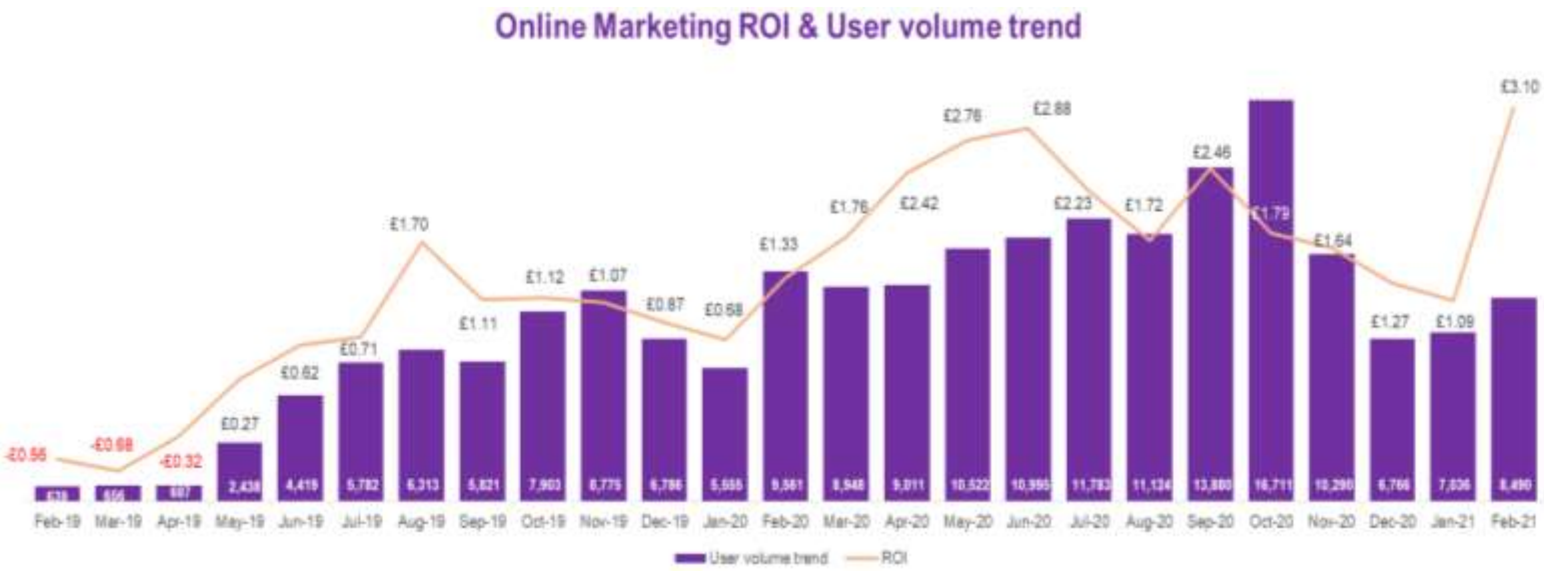

Table 4: YourCare P&L (18/19-20/21)

	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/(L	**(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 a loss of £90k, bringing cumulative losses to £238k, with debt of £270k.

3.Conclusion

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 much as 20% in the quarter to June 2020.
- The ongoing Covid-19 crisis and its short, medium and long term impact on the retail sector

YourCare turnover has grown by 49% between 18/19 to 20/21 from £62k to £93 k. This increase is mainly due to the 655% increase in online sales, while shop sales have reduced in the same period by 58% mainly due to the COVID-19 crisis. The 655% increase resulted from increased investment in Marketing and website development.

The key challenges faced have been:

- The lack of a proper retail facility
- Slow progress in buy–in from partners (CUH and LA's)
- Strong competition from more established retailers
- Covid-19 pandemic resulting in adverse market conditions
- Supply chain disruption (Brexit, Steel and foam shortages) severely impacting sales volume

Given the current context of the financial pressures experienced by the shareholder. It has become critical to review the position of the private retail company (YourCare) and its viability.