



Report to:	Sutton Shareholdings Board	Date:	5 February 2019
Report title:	Encompass LATC Ltd Annual Report		
Report from:	Mary Morrissey, Chief Executive (Interim)		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Sunita Gordon		
Author(s)/Contact Number(s):	Simon Latham, Assistant Director, Housing, Planning and Regeneration, 020 8770 4006		
Corporate Plan Priorities:	<ul style="list-style-type: none"> ● Being Active ● Making Informed Choices ● Living Well Independently 		
Open/Exempt:	Open		
Signed:			Date: 25 January 2019

1. Summary

- 1.1 The annual report sets out the activities of Encompass Local Authority Trading Company (LATC) Ltd in the trading period 2017/18 and its ambitions and long term strategies for the following year.

2. Recommendations

The Sutton Shareholdings Board is recommended to:

- 2.1 Note Encompass LATC Ltd's Annual Report and Annual Accounts for 2017/18, attached as Appendices A and B.

3. Background

- 3.1 Encompass LATC presents the Directors' Report for the trading period 2017/2018 and audited financial statements for the year ending 2017/18.

4. Issues

Activities During the Year

- 4.1 Encompass focused on delivering services effectively and efficiently whilst managing a number of service challenges and preparing Encompass Living to become ready for the market.
- 4.2 In April 2018, after some significant preparation in Quarters 3 and 4 of 2017/8, the Homelessness Reduction Act 2017 was implemented. The new duties strengthened the right to free information and advice, and introduced an enhanced prevention of homelessness duty.
- 4.3 A new delivery model and structure was therefore developed to underpin a new operational framework.
- 4.4 Work with Members, partners and stakeholders was undertaken to ensure that the impact of the new duties were fully understood.
- 4.5 The cost and implications of the new duties for the Council were set out in a report to the Housing, Economy and Business Committee on 28 January 2018.

Home Care

- 4.6 Encompass worked in collaboration with the Council to introduce the new home care contract. A phased approach to transferring people from their current care provider to one of the new providers was implemented. Despite changes to the implementation plan, around 200 households so far have been transferred.

Principal Risks

- 4.7 Services previously delivered by Sutton Centre for Independent Living and Learning were formally transferred to Encompass on 1 April 2017.
- 4.8 During the first two quarters of 2017/18 Encompass carried out a financial appraisal of the business activities that transferred. Analysis identified that the main business activities, the cafe and the gym, were incurring significant losses.
- 4.9 Uncertainty with regard to length of tenure of the building made further development and investment in the services risky.
- 4.10 Therefore, the Board of Directors made a decision to cease operating services from the Hub. Encompass retains the Direct payment contract and continues to deliver the Financial Administration Service and I.T. classes.

Developing Business Streams



- 4.11 The Digital Innovation service continued to grow organically and by 'word of mouth', with income increasing by 100% on 2016/17, signalling a promising outlook for 2018/19. Furthermore, Encompass LATC were accepted onto the ESPO Framework, which means that all public sector services are able to use Encompass services without going through any other public procurement exercise.
- 4.12 Encompass appointed Zest as their marketing agent, who have worked closely with Encompass to develop a fresh and exciting branding that reflects the diverse nature of its business.

Progress and further developments in 2018/9

- 4.13 Demand arising from the implementation of the Homelessness Reduction Act has had significant implications on the resources required to meet the statutory obligation. The increase activity arises from an increase in the numbers of people presenting as homeless, the onerous recording requirements and a rise in the complexity of cases.
- 4.14 The difficulty in recruiting to permanent posts has been addressed by i) the use of agency staff ii) recruiting trainees. The turnover of agency staff and budgetary limitations has placed pressure upon the service. The commitment of the current permanent employees has been exemplary and they have worked flexibly to ensure the Encompass meets its KPI's and provide an effective service to service users.
- 4.15 Clearly, continued funding will be crucial to Encompass' ability to respond to the demands of the Homelessness Reduction Act.
- 4.16 Legal changes have meant that one of Encompass' envisaged income generating workstreams cannot be taken forward. However, Encompass has taken advantage of other new business opportunities in 2018/19, including managing personal health budgets on behalf of Sutton Clinical Commissioning Group.
- 4.17 The end of year forecast for revenue from all business streams is just under £130,000.

Financial issues

- 4.18 Turpin, Barker and Armstrong presented an audit findings report to the *Encompass Board of Directors*. The annual report and financial statements have again been audited free from qualification and they have found no areas of mis-statement.
- 4.19 Encompass generated a net profit of £34,546 in 2017/18, and an operating surplus of £571,026.
- 4.20 Encompass advises that a significant proportion of the operating surplus generated in 2017/18 reflects the high vacancy rates that have been incurred during the year.
- 4.21 Encompass' aim in 2018/9 was to improve its recruitment success and reduce the vacancy rate by reviewing its recruitment processes and employment terms and conditions. Staff have

worked efficiently and cooperatively to deliver an effective and efficient but report high levels of stress.

- 4.22 The net liability reported in the Balance Sheet has arisen due to the pensions deficit which is not expected to unwind for a number of years.
- 4.23 The 2016/17 annual accounts did not disclose the deficit arising from the defined benefits pension plan and therefore, following advice on the options available to Encompass LATC, this year's annual accounts (2017/18) have been drafted to include a prior adjustment to reflect that the last set of accounts did not include all necessary material.
- 4.24 The directors therefore have no reason to believe that the company would not be able to meet its liabilities over the next 12 months, and the accounts are prepared on a 'going concern' basis.
- 4.25 As a company registered at Companies House, there is a statutory requirement that Encompass reports its financial position annually in accordance with accounting standards. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102.
- 4.26 Following signing, copies of the accounts will be filed with Companies House and also made available on the Encompass website.
- 4.27 The company's annual confirmation statement was lodged with Companies House on 29 May 2018.
- 4.28 Encompass LATC was unable to file the company accounts by 31 December 2018 as required by Companies House, and will file the accounts by 31 January 2019. The late filing of the accounts is due to some robust auditing carried out by Turpin, Barker and Armstrong with regard to the bank account which holds service users funds. This is a service provided by Encompass, but not commissioned by the Council. The income and expenditure on this account did not wholly reconcile. The amount received from the Council reconciled against the sum posted against each individual account but the invoices received and payments made did not reconcile and some individual accounts showed a debit against their account. Whilst this is not unusual, the auditors required a more detailed breakdown of the account receivable balance that Encompass holds on behalf of the clients.
- 4.29 The current position has now been approved by the auditors and they have completed the auditing of the 2017/18 accounts.

5. Options Considered

- 5.1 None. This report is solely to present to the shareholder the Annual Report 2017/8 and Annual Accounts 2017/18.



6. Impacts and Implications

Financial

- 6.1 The 2017/18 financial statements have been audited by Turpin Barker Armstrong Chartered Certified Accountants and Statutory Auditors. The financial statement included the statement of comprehensive income and statement of financial position. The statements were audited free from qualifications.
- 6.2 The company is reporting a turnover of £3,317,410 and a surplus of £34,546.
- 6.3 Changes to the assumptions and methods of valuations used by the actuary for the FRS102 pension adjustments in 2017/18 led to a pension liability of £2,195,000. This is a reduction of the net position deficit from £2,257,000 as reported in 2016/17.
- 6.4 Excluding the defined benefits pension liability, positive cash flows have resulted in net current assets at 31 March 2018 of £483,415.

Legal

- 6.5 Save that Encompass will be fined for the failure to submit accounts to Companies Houses in good time, there are no further legal implication with regards this report.

7. Appendices and Background Documents

Appendix letter	Title	
A	Encompass LATC 2017/18 Annual Report	
B	Summary financial statements	
Background documents		
Encompass 2017/18 Annual Accounts		
Audit Trail		
Version	Final	Date: 24 January 2019
Consultation with other officers		
Finance	Yes	Solomon Akuffo
Legal	Yes	Fabiola Hickson
Equality Impact Assessment required?	No	N/A

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