

TITLE	Shareholder's Report
FOR CONSIDERATION BY	The Executive on 27 September 2018
WARD	None specific
DIRECTOR	Graham Ebers, Director of Corporate Services
LEAD MEMBER	Executive Member for Finance and Corporate Services

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

Transparency in respect of Council Owned Companies

RECOMMENDATION

The Executive is asked to note:

- 1) the budget monitoring position for the month ending 31st July 2018;
- 2) the operational update for the period to 31st July 2018;

EXECUTIVE SUMMARY

This report is to update the Executive on the performance and progress on those subsidiary companies that the Council has a controlling shareholder interest in.

Housing. The Council has established a group of wholly-owned housing subsidiaries in order to provide much needed affordable housing across the Borough whilst generating a financial return for the Council; this return contributes to the Council's aspiration of becoming increasingly independent of central government support.

The housing group has now become well established and last year Wokingham Housing Limited (WHL) built 123 new homes; these were then sold within the group to Loddon Homes Limited (LHL) and Berry Brook Homes Limited (BBHL) generating a profit of just over £600k. Also in 2017/18, WHL were able to pay off £1 million of its operational loan back to the Council.

WHL is working hard on its future development pipeline, planning to deliver a further 360 new homes over the coming years. Projections are for WHL to construct and deliver between 50 and 75 homes every year, with an annual profit target of at least £1 million.

Adult Care Services. Optalis Group (Optalis) was established to be the Council's provider of choice for Adult Care Services. Its key objectives were to provide safe and good quality Adult Social Care Services commissioned by the Council at a reduced cost and to provide a financial return to the Council. To date a reduction of costs amounting to over £1m per annum costs have been realised and following a recent merger with RBWM, the business has expanded from an annual turnover of £11 million to £40 million. This will enable Optalis to grow and create further financial returns through economies of scale and allow the company to generate additional streams of income.

Strategy and Objectives of the Council's Subsidiary Companies

There has been no change to the strategy and objectives of any of the Council's subsidiary companies since the last report to Executive in June 2018.

Operational Update

An operational update is provided in section 1 for each of the companies as at 31st July 2018. Any changes to the Directorships of the companies is provided at the end of the relevant company's operational update.

Financial Report

A budget monitoring report is provided in section 2 for each of the companies for July 2018.

BACKGROUND

Housing Group

Operational Report

WHL Schemes In Progress/Under Development:

Summary: WHL delivered 123 new homes in 2017/18, and have now delivered 141 homes in total since 2011. Another 14 homes have planning permission and are either on site or being put into development shortly.

WHL has around 360 units in the identified development pipeline, which would provide a net gain of units of around 150 additional homes, as 240 of these are on the Gorse Ride South regeneration project.

In terms of extending the development pipeline beyond the 360 potential units already identified, work is ongoing with Property Services (PS) to look at potential Council assets that could be developed to add to the development pipeline and help provide additional affordable housing and also homes for private rent and sale in the Borough. WHL are also looking at other opportunities outside of WBC assets to deliver the shareholders objectives, which include joint ventures with other organisations.

As a result of the much reduced and slower pace of development activity than expected in 2018/19, WHL will need to again start borrowing working capital loans soon from WBC, despite having paid off £1m of working capital debt last year. Although WHL has been self-financing so far this year, we expect to make a loss overall, before returning to profitability again in 2019/20.

SITE:	PROGRESS:
Norton Road (9 units)	<ul style="list-style-type: none">• There is some slippage in the programme as a result of the extreme hot weather in June, July and early August. Units will soon be watertight, which will allow a reassessment of the programme and what lost time can be caught up to try and achieve the January completion date deadline.• To date the net valuation is £790k against the contract sum of £1.631m – c. 48%.

Pipeline site with planning permission:

SITE:	PROGRESS:
Finch Road (2 units)	<ul style="list-style-type: none">• Discussions with Francis Construction are moving to completion and they are in conversation with SSE to get the dates for moving the electric cable agreed which will take place before the start on site date to ensure we do not incur unnecessary prelim costs.
Middlefields (2 units)	<ul style="list-style-type: none">• Resource Building Services are expected to start on site in September, and we are working through the pre-commencements planning requirements to be signed off by planning.
Tape Lane	<ul style="list-style-type: none">• Contracts for building the development with LIFEBuild have now been signed and are being engrossed. The development

(11 units for the HRA)	agreement between WBC Housing Services and WHL has also been signed, with a start on site scheduled for October.
Gorrick Square (1 units)	<ul style="list-style-type: none"> The fire strategy needed to cater for one of the residents that the scheme is being built for has been agreed by the fire officer so WHL can now work to get the tender documentation finalised. A WBC resource has been identified to lead on acting as the conduit between the families and WHL.

There have been no changes to WHL company directors since the last report.

Loddon Homes Limited (LHL)

Loddon Homes' first shared ownership homes at Elizabeth Road (2 units) and Barrett Crescent (2 units) are close to being sold. Loddon Homes are expecting sales income to be £115k more than originally estimated at £0.5m because of higher tranche sales than the 35% minimum.

As well as achieving shared ownership sale, Loddon continues to focus on ensuring WBC Housing Services fill all voids quickly.

Fosters is still only three quarters full, although 3 of the 8 vacancies have recently been allocated to and will hopefully soon be filled. At Loddon's September Board meeting the issue of voids at Fosters and loss of income was discussed and the Board have now formally asked WBC to relax the allocations criteria to get these vacancies filled and income secured as soon as possible.

Loddon Homes was forecast to make a profit in 2018/19 for the first time since being set up in 2014. As a result of the reduced development activity in 2018/19, where fewer projects are coming through than forecast and some projects having started later than originally anticipated, the profits expected from shared ownership sales in 2018/19 are much lower and will move in to 2019/20. When combined with the reduced rental income at Fosters due to voids, Loddon Homes now expect to make a loss this year, with ongoing profitability being delayed until 2019/20. If rental income at Fosters had been as forecast with units being filled much more quickly, the company would have broken even or made a small profit.

Changes to Directors:

There have been no changes to Loddon Homes' company directors since the last report.

Berry Brook Homes Limited (BBHL)

Berry Brook is monitoring closely WBC Housing Services and how they are managing Berry Brook's stock, especially at Phoenix Avenue where a second residents meeting is due to take place in October. Housing Services have been taking a proactive approach to defects management at Phoenix where the contractor Hill continue to need to be tightly managed. To help put more pressure on Hill, the Employers Agent role has been changed by WHL and is now being much more thorough in working with Housing Services on defects identification and management.

Berry Brook Homes is working towards purchasing the 22 key worker apartments in Wokingham town centre at Peach Place from WBC Town Regen and ensuring that allocations are prompt and arrangements for management are effective. Units are expected to come in to the company in early January.

Deciding how Berry Brook can best achieve its objectives of providing dividends back to WBC and also deliver housing that is needed in the Borough, is under keen discussion with our sister companies. With the dual issues of a slower than expected development pipeline combined with changes to Government housing policy, Berry Brook's business plans need a complete overhaul and rethink. The company hopes to have a clearer idea of its future strategy and best way of delivering its objectives later in the Autumn.

Changes to Directors:

There have been no changes to Berry Brook Homes' company directors since the last report.

2. Financial Report

WBC (Holdings) Group (comprising WBC (H)L, WHL, LHL and BBHL)

WBC Holdings- Profit & Loss									
P:4 Jul-18	Month			YTD			Full Year		
	Jul-18	Jul-18		Jul-18	Jul-18		Jul-18	Jul-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	89	64	25	356	243	113	1,069	956	113
Expenditure	(106)	(78)	(28)	(424)	(301)	(123)	(1,272)	(1,149)	(123)
Operating Profit/(Loss)	(17)	(14)	(3)	(68)	(57)	(11)	(203)	(193)	(11)

There is a contra-variance on income and expenditure reflecting a slower drawdown of loan capital by the subsidiary companies, resulting in a corresponding slower drawdown by WBC (Holdings) Ltd. Assuming schemes complete within budget and planned timescales, the full year forecasted outturns will show a smaller projected loss than originally budgeted for WBC Holdings and its subsidiary companies.

Wokingham Housing Limited (WHL)

Wokingham Housing Limited - Profit & Loss									
P4: Jul-18	Month			YTD			Full Year		
	Jul-18	Jul-18		Jul-18	Jul-18		Jul-18	Jul-18	
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	220	367	(147)	1,211	1,356	(144)	10,694	10,952	(258)
Expenditure	(238)	(395)	157	(1,068)	(1,284)	216	(10,289)	(10,652)	363
Operating Profit/(Loss)	(18)	(28)	9	143	72	71	405	299	106

Income and Expenditure:

Income for July 2018 was £220k, which reflected a £147k negative variance due to lower construction revenue from the LHCs than budgeted. This lower income was countered by £157k less expenditure, resulting from lower construction costs in addition to below budget spending on most categories.

Year-to-date revenues reached £1,211k, which reflected a £144k negative variance. However, expenditure of £1,068k was £216k lower than budgeted reflects similar reduced expenditure as in the month.

The monthly operating loss of £18k reflected a £9k positive variance against budget, while the year-to-date operating profit of £143k is £71k ahead of budget.

Loddon Homes Limited (LHL)

Loddon Homes Limited- Profit & Loss								
P4: July-18	Month			YTD			Full Year	
	Jul-18	Jul-18		Jul-18	Jul-18		Jul-18	Jul-18
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast
	£K	£K	£K	£K	£K	£K	£K	£K
Income	48	30	18	622	112	510	2,851	2,783
Expenditure	(31)	(31)	0	(529)	(114)	(415)	(2,108)	(2,111)
Operating Profit/(Loss)	17	(1)	18	93	(2)	95	743	672

Income and Expenditure:

Income for July 2018 at LHL reached £30k, which reflects a £18k negative variance. This is due ASC vacancies at Fosters which are a high priority to be filled. Year-to-date income of £112k reflects a £510k negative variance, due to sales from shared ownership not occurring in the period. However, demand for the completed properties has been strong with deposits secured on all properties, and LHL expects to receive this level of revenue, at a minimum, later in the first half of FY18/19.

Expenditure reached £31k in the month, which was roughly in line with budget. Year-to-date costs of £114k were £415k below budget, which was a result of the costs of sales for the above shared ownership properties not flowing through the profit & loss statement until sales are completed.

The operating loss of £1k in July 2018 was £18k lower than budget due to the variances explained above. The year-to-date operating loss of £2k is £95k below budget, primarily due to shared ownership sales not completing in the period as explained above.

Berry Brook Homes Limited (BBHL)

P4: Jul-18	Month			YTD			Full Year		
	Jul-18	Jul-18		Jul-18	Jul-18		Jul-18	Jul-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	53	61	(8)	191	199	(8)	582	586	(4)
Expenditure	(22)	(16)	(6)	(87)	(72)	(15)	(265)	(295)	30
Operating Profit/(Loss)	31	45	(14)	104	127	(23)	317	291	26

Income and Expenditure:

Income in July 2018 reached £61k, which reflected a £8k positive variance due to differences with budget assumptions. Year-to-date income of £199k reflected a £8k positive variance.

Expenditure reached £16k in the month, which reflected a £6k positive variance against budget. This was due to lower direct property costs and tight control of overheads in the month. Year-to-date expenditure reached £72k, which was £14k better than budget. This reflects similar expenditure patterns as those in the month. However, as the properties time out of the 1 year defects period, costs may revert to budget in coming months.

Operating profit in the month of £45k was £14k higher than budget, and the year-to-date operating profit of £127k reflects a £23k positive variance against budget.

Adult Care Services Group

1. Operational Report

Optalis Limited

General:

We have received CQC inspections across our Extracare Housing schemes (Alexander Place, Beeches Manor, Fosters and Birches) which resulted in a “good” CQC rating. We also received a “good” rating for our six bedded residential home. This means that in the last 5 months, we have received “good” in all inspected services. All these services 12 months ago were requiring improvement. A clear sign of our commitment to delivering quality services

The external year-end audit is reporting an increase in surplus in FY17/18 over the previous year.

Vacancies in the sector as a whole continue to present challenges. Our vacancy rates are below those of national averages, as is staff turnover.

Customer satisfaction levels are tracking at 84% which compares favourably to similar organisations.

Our Supported Employment team has re-won its contract with Reading College as a direct result of the successes we have achieved in this area. Nine out of ten customers who enter our service gain employment or work experience as a result of our programme.

Wokingham Borough Council Wokingham Borough Council (WBC) and the Royal Borough of Windsor & Maidenhead (RBWM) have agreed to appoint a joint Director of Adult Social Services (DASS) to manage the statutory social care duties of the councils.

This arrangement has developed through the growth of partnership working across the Royal Borough and Wokingham Borough. It confirms a clear commitment to strengthen services to its residents while at the same time securing greater resilience across the workforce through developing opportunities to work across a larger geographical area

The joint DASS will be Angela Morris who will be leaving her current role as Operations Director at Optalis which delivers adult care and support on behalf of both councils. As part of her new role Angela will lead a piece of project work to assess the future direction of Wokingham Borough Council's adult services.

2. **Financial Report**

Optalis Group (comprising Optalis Ltd, Optalis Wokingham Ltd and Optalis Holdings Ltd.)

P:4 Jul-18	Month			YTD			Full Year		
	Jul-18	Jul-18		Jul-18	Jul-18		Jul-18	Jul-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	3,784	3,751	33	15,105	14,915	190	66,766	66,766	0
Expenditure	(3,781)	(3,766)	(15)	(15,091)	(14,881)	(210)	(66,718)	(66,718)	0
Operating Profit/(Loss)	3	(15)	18	14	34	(20)	48	48	0

July 2018 results:

Optalis are reporting a £34k profit for the first four months. This is above budget and split between the RBWM and WBC contracts. A quarterly reconciliation will be taken to align the figures to Contract and therefore there may be adjustments to these figures. Private business is currently performing below what was anticipated but this is expected to increase from the September figures when the current year's SES Reading College contract begins.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	See other financial implications below	Yes	Revenue
Next Financial Year (Year 2)	See other financial implications below	Yes	Revenue
Following Financial Year (Year 3)	See other financial implications below	Yes	Revenue

Other Financial Information

The Council will benefit from reduced costs in commissioning services, the interest and management charges to WBC (Holdings) Ltd and future profits paid out as dividend. These will be factored into the Medium Term Financial Plan under the appropriate service.

Stakeholder Considerations and Consultation

Not applicable – information report only

Resourcing and Timeline for Next Steps

Not applicable – information report only

Timeline for Review and Evaluation

Not applicable – information report only

List of Background Papers

None

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