

TITLE	Council Owned Companies Business - Purchase of Optalis Ltd Shares
FOR CONSIDERATION BY	Special Council Executive on 28 March 2013
WARD	None Specific
STRATEGIC DIRECTOR	Graham Ebers, Strategic Director Resources
LEAD MEMBER	David Lee, Leader of The Council

OUTCOME / BENEFITS TO THE COMMUNITY
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To ensure transparency and understanding of the trading position of Optalis Ltd and enable the Trading Company to deliver on their ambitions.

RECOMMENDATION

That the Special Council Executive Committee approve the purchase of £50,000 Redeemable Preference Shares from Optalis Ltd
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SUMMARY OF REPORT

There is a requirement for WBC, as the sole shareholder in Optalis Ltd, to provide an equity injection of £50k to Optalis Ltd. This will ensure the Optalis Balance Sheet as at 31 st March 2013 has an equity surplus rather than equity deficit.

Background

The Forecast equity reserves as at 31st March 2013 for Optalis Ltd are currently expected to show an equity deficit of £39k. The deficit comprises FY11/12 loss of £84k and a forecast FY12/13 profit after tax of £45k.

Optalis Ltd will be looking to grow the business by winning new contracts.

- Credit checks will be performed on the latest year end accounts of Optalis (FY12/13)
- A negative equity position will not portray a sound financial standing
- A poor credit rating will impede on the ability of Optalis to win new business
- An equity injection of £50k would correct the negative equity position of Optalis.

Analysis of Issues

The adjusted forecast equity position will show a £11k surplus after the equity injection of £50k from WBC.

Achieving the Equity Injection

The preferred route for achieving the equity injection is for Optalis to issue Redeemable Preference Shares to the value of £50k. This type of share issue is common where companies have growth and expansion plans in mind, but require an immediate equity injection.

- Optalis issues the shares for a specific time period with redemption at the discretion of Optalis
- WBC purchases the shares
- Optalis raises the equity required, without taking on additional debt
- At the end of the stipulated time WBC can choose to exchange these shares for equity shares in Optalis or for cash
- The shareholders (WBC) are repaid the face value (£50k) of the shares plus any dividends

The above method of achieving the equity injection has been agreed in principal with Hazelwoods who act as External Auditors to Optalis.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£50k	Yes	Capital
Next Financial Year (Year 2)	Nil		
Following Financial Year (Year 3)	Nil		

Other financial information relevant to the Recommendation/Decision

The share purchase will be financed from capital resources in the books of WBC.

Cross-Council Implications

None

List of Background Papers

Optalis Financial Report and Forecast out-turn.

Contact Keith McKenzie	Service Resources
Telephone No 0118 974 6570	Email Keith.McKenzie@wokingham.gov.uk
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