

TITLE	Council Owned Companies Business
FOR CONSIDERATION BY	The Executive on 29 September 2016
WARD	None specific
DIRECTOR	Graham Ebers, Director of Finance and Resources
LEAD MEMBER	Keith Baker, Leader of The Council

OUTCOME / BENEFITS TO THE COMMUNITY

Transparency in respect of Council Owned Companies

RECOMMENDATION

The Executive is asked to:

- 1) note the budget monitoring position for the month ending 31 July 2016;
- 2) note the operational update for the period to 31 August 2016;
- 3) approve the operational funding facilities for Wokingham Housing Limited and WBC (Holdings) Ltd of £1.49m and £1m respectively, charged at base rate plus 5.5%.

SUMMARY OF REPORT

Strategy and Objectives of the Council's Subsidiary Companies

There has been no change to the Strategy and Objectives of the Council's Subsidiary Companies since the last report to Executive in July 2016.

Operational Update

An operational update is provided from each of the companies as at 31 August 2016 in paragraph 2 below.

Financial Report

A budget monitoring report is provided for Wokingham Housing Ltd for July which confirms that the company has incurred a deficit as forecast. This again reflects the high level of capital works being undertaken which has previously been reported, and which will be followed in later years by income flows from the investments.

The position for the Group is explained in paragraph 3 below.

Group Companies Funding Facilities

Background – Wokingham Housing Limited (WHL)

To enable WHL to fund their day to day operational costs until the company is generating profits WBC have provided a funding facility. This facility is to cover non-capital expenditure including payroll, premises and other overheads. Holding Company support working capital funding up to a maximum of £1,490,000.

Background – WBC (Holdings) Ltd (WBCHL)

WBC (Holdings) Ltd incurs management costs and bears interest expense on the capital funding facility it loans on to the other group companies. Until the Group companies are profitable and in a position to pay dividends to the Holding company WBC is required to provide funding to cover these costs. The forecast amount of these costs to the end of the current fiscal year is £1,000,000.

REPORT

1. Directorship Report

- Loddon Homes, WHL and WBC (Holdings) previously approved the recruitment of an additional independent Non-Executive Director (NED) for Loddon Homes should For-Profit Registered Provider Status (FPRP) be achieved. Having achieved FPRP status the planned replacement of an existing NED, Robin Fielder, and the recruitment of an additional independent NED will take place over the autumn.

2. Operational Update to 31 August 2016

2.1 WBC (Holdings) Ltd

WBC (Holdings) Ltd does not undertake any operations as it is a holding company.

2.2 Optalis Ltd

- CQC compliance – there are no outstanding CQC compliance matters.
 - No further news has been received in relation to the expected inspections for ILS and Home Care. A request for Provider Information Returns (a self-assessment framework) would have been expected at this point.
 - The Registered Manager of Short Term Assessment and Reablement (START) has now left and the Home Care manager is on extended leave due to an operation. The Regulator has been informed of our cover arrangements. The arrangements for START remain unclear and are to be resolved in the context of WISH integration; in the meantime, Optalis is recruiting to an interim registered manager.
 - The regulator will further have been informed of the care governance situation at Suffolk Lodge (see below).
- Care Governance: Suffolk Lodge has been entered onto WBC's Care Governance Framework on a 'Red' status. An action plan has been provided to the Council setting out how Optalis will respond to the improvements required. A letter informing customers of the service has gone out, in line with our duty of candour.

- Sickness absence for July was 10.69, a decrease from the previous month. The underlying short term sickness rate of 5.03 is a further reduction from 6.31 days per person the previous month. The trend of a slightly increased number of people on long term absence (over 30 consecutive days) has continued, however early indications are that there is churn in this area. Behind the higher level of data, it is clear that sickness is higher in the areas of older people and working age adults, when separated from the central team and the B&PS service, i.e. in the front line provider teams.
- The Optalis Care Governance Committee met on 11 August to review all aspects of quality and compliance. The main theme for the meeting was improving Optalis' standards with regards to involving customers in recruitment as well as early feedback from the early application of the audit protocol. Three top risks identified were 1) Quality and compliance of personnel files (identified through audit), 2) Quality of reporting and recording, 3) Training (completion rates and recording). Action is being taken across all identified risks.
- The Customer Experience Champion has led specific projects over the past month, including; relaunching our feedback mechanism via feedback boxes in services, including revising the posters and feedback forms; preparing for a drama student to come on placement thus contributing to activities in older peoples services during the coming autumn; applying for grant monies which will bring on board a tutor to contribute further to activities through structured programmes such as reminiscence work. The priority for the next period is the revision and relaunch of the company's complaints and compliments policy and following through on the work of the CGC in relation to involving customers in recruitment.
- A new service joined our portfolio on 1 September: Mokattam, a residential care home for six people with profound disabilities in Maidenhead. The service is commissioned by Royal Borough of Windsor & Maidenhead (RBWM) (4 residents), Slough BC (1 resident), and NHS Windsor, Ascot and Maidenhead CCG (1 resident).

Business Development:

Wokingham

- Optalis has been engaged by WBC commissioners as the provider of choice for a new extra care scheme in Woodley (Bulmershe) originally set to open in October 2016. Optalis has been notified that the timeframe has slipped to May 2017. Value: To be confirmed, but estimated at £400k.
- We continue to work with WBC on the redevelopment of the Fosters site, where a new Extra Care Housing (ECH) scheme is due to launch in October 2017. Work has started on site and Optalis signage is now in place at the site. Value: Not yet available.
- Loddon Court, a residential respite and outreach service, currently provided by another provider, has been put forward to Optalis for review under the Provider of Choice protocol. Optalis is currently preparing its submission to WBC for this service, due on 12 September.
- WBC has approached Optalis with early inquiries regarding a young person's homeless project which is being recommissioned, set to go live summer 2017. Optalis is engaging positively with the inquiries.

Royal Borough of Windsor & Maidenhead

- Mokattam residential care home transferred to Optalis on 1 September 2016. Value: £440k.

2.3 Wokingham Housing Ltd (WHL)

2.3.1 WHL Completed schemes:

There are no operational changes at Hillside since our last report.

The outstanding works at Vauxhall Drive are now programmed to take place shortly, with a temporary move of residents to facilitate the works being agreed with WBC, the care provider, and parents of residents. This work will address the outstanding historical works that need to be undertaken and successfully deal with this long running matter.

2.3.2 WHL Schemes in Progress and/or Development:

Phoenix Avenue:

Although Phoenix Avenue continues to progress well we have bottomed out with Hill the previously reported matter of the slipped schedule. Disappointingly the time lost cannot all be made up, and so the first handovers will now be in mid-April rather than mid-March. The final practical completion date of mid-May for all properties will still be met. The previous Hill Construction Director we were dealing with, no longer works for Hill and his replacement gives us confidence that further delays will be avoided, notwithstanding any agreed poor weather delays which can occur during the build.

Fosters Extra Care Home:

Fosters Extra Care scheme is progressing well with on-site activity being on time and to budget. The claim for 50% of the HCA grant of £1.49m has been paid from the Council to WHL to support the first £750k of construction expenditure.

Pipe-line sites:

Good progress to ensure that the sites within the current WHL development pipeline are delivered is taking place.

We have awarded the contract for Anson Walk and Grovelands to the successful bidder, Francis Construction, and are discussing with Francis Construction potential start on site dates for November 2016.

Barrett Crescent has now received a new planning approval for a revised scheme to develop two, two bed apartments. The securing of a new planning approval means WHL can now progress with tendering and then building out this project, as Executive approval, subject to planning, was granted in July.

For all other pipeline sites, should Executive approval be achieved at this meeting for WHL to progress these sites, the tendering and letting of contracts will take place as and when planning is achieved for all sites. This is a total of 26 additional affordable homes and one potential private sale home, spread over nine sites.

Should Executive approval be achieved at this meeting, Members will see a steady flow of small WHL sites being delivered. We expect to package pipeline sites in to two to three phases, with start on sites estimated to be in January, March and April 2017, each with a 10-12 month build programme.

Loddon Homes (LHL):

Having achieved For-Profit Registered Provider (RP) status with the Homes and Communities Agency (HCA), Loddon Homes has been focussing on continuing to prepare for taking over its next affordable homes and ensuring that the management and maintenance of its existing 16 homes remains effective.

In preparing for the next batch of homes Loddon Homes hope to own, we have been working closely with WHL and Holdco to look at the best arrangements around housing companies' structure and where best to place assets as they are completed. The much changed housing policy environment that the Government has brought in means that rent reduction pressures and housing associations being subject to the Right to Buy are new risks we are keen to mitigate. Active discussions are ongoing along with useful conversations with the HCA and external advisers on how best to manage these new risks within the Council's housing companies.

Loddon Homes submitted a bid for grant for shared ownership homes to the Homes and Communities Agency's Shared Ownership and Affordable Homes Programme, 2016-21, on 2nd September. In total we bid for just over £1.5m of grant to support 18 shared ownership homes we are hoping to build in 2017/18 and a further 60 homes based on 15 homes a year thereafter. Any grant we receive would help the Council's commuted sums from developers go further and produce more affordable homes overall. Loddon Homes should hear if our bid for grant will be successful in December. This is particularly important in relation to the Elizabeth Road site where the Commissioner has approved development only on the proviso that HCA grant is provided to support the overall scheme costs.

3. Financial Report

Budget Monitoring for 2016-17 financial year (To 31 July 2016)

3.1 WBC Group Consolidated, (i.e. comprising WBC (Holdings) Ltd, Wokingham Housing Group (including Loddon Homes Ltd), and Optalis Group).

The figures shown below represent the overall expenditure and income of the Council's subsidiary companies. A consolidated position for the Group is not currently available, Optalis' financial position is undergoing review and an update will follow.

3.2 WBC (Holdings) Ltd

A year-to-date deficit of £139k after interest and tax is reported for July.

3.3 Optalis

- Like many care providers operating in a challenging financial climate, Optalis is facing significant financial challenges at the present time.
- A deep examination is taking place in relation to the company's governance and the viability of individual services, particularly in view of the difficulties related to recruitment of care workers in the area.
- Optalis' cashflow position is challenging, in part due to recent changes in payment terms, and an intercompany loan is to be requested from WBC (Holdings) Ltd to

ensure a viable trading position and a continued positive relationship with suppliers.

- Optalis is working closely and transparently with Wokingham Borough Council on the current review.

2015/16 year end results and Audit update:

- Following a number of appropriate adjustments, the 2015/16 outturn has been revised to £28k.
- Draft statutory accounts have been received from the auditors. These currently need a final review plus some director information added to allow the notes section to be completed.
- It is anticipated that the accounts will be ready for signing at next month's Optalis board meeting.

Risk/Mitigation

- Agency spend remains high and weekly management reviews chaired by the managing director continue; progress has slowed significantly due to a slowing of recruitment over the summer; this is adding significant pressure on the company financially.
- Legal: Negotiations via the WBC legal team with Expense Reduction Analysts (ERA) are continuing. Optalis' offer has been rejected and it is therefore now likely that the matter may be referred to the courts by ERA. There have been no developments since the last report to the Board.
- The change in finance resources continues to place pressure on the organisation. Recruitment to the finance team has now concluded, however there will be a period of continued pressure as the team settle in and learn the full requirements of the department.
- Optalis financial outlook is currently causing some concern;
- Contractual underperformance exists in some services, notably START, Home Care, and in some day services. In the context of the new contract this remains a concern.

3.4 Wokingham Housing (Including Wokingham Housing Ltd & Loddon Homes Ltd)

Income in July 2016 is £7k (with year to date income of £28.3k). While this represents a £0.2k surplus in month the year to date target is £13.8k behind budget. This is due to budgeted income recognised in prior year. Operating expenditure is better than budget by £0.2k in month and £17.5k year to date. Savings in month are largely from much lower fees than predicted. Year to date savings have not recorded the costs of the income recognised in prior year in addition to lower professional fees expenditure than expected. These are partially offset by development costs in preparing to develop existing property, additional utility costs, marketing costs from prior year and higher interest charges. Most of these variances are expected to recover later in the year.

The Net Loss of £41k in month is £0.4k better than expected while the year to date net loss of £172k is £3.7k better than budget.

Balance Sheet

Capital expenditure in July was £795k including construction contractor payments for Phoenix of £486k and for Fosters of £267

Net Assets for the Wokingham Housing Group were £284k in July. Borrowings for Wokingham Housing Group to support capital activity is £4,325k and to support operational activity is £1,098k. An investment of £1,900,000 of £1 ordinary share capital is invested in Wokingham Housing Limited.

Wokingham Housing Limited (Consolidated)

Profit and Loss Account for the period to 31st July 2016	P04: July / Year To Date		
	Actual	Budget	Variance
	£	£	£
Income	28,285	42,105	(13,821)
Operating Expenditure	(200,722)	(218,247)	17,526
Operating Loss	<u>(172,437)</u>	<u>(176,142)</u>	<u>3,705</u>

Total Sub Group JULY	Jul	Jul	Budget	Prior Mth	
	Actual	Budget	Variance	Actual	Variance
	(£000)	(£000)	(£000)	(£000)	(£000)
Income	7.31	7.12	0.20	6.75	0.56
Costs	<u>(46.22)</u>	<u>(46.46)</u>	<u>0.24</u>	<u>(46.39)</u>	<u>0.17</u>
Operating Loss	(38.91)	(39.34)	0.43	(39.64)	0.73
Non Trading costs	-	-	-	-	-
Depreciation	<u>(2.13)</u>	<u>(2.13)</u>	<u>(0.00)</u>	<u>(2.13)</u>	-
Loss before Tax	(41.04)	(41.47)	0.43	(41.77)	0.73
Taxation	-	-	-	-	-
Net Loss	<u>(41.04)</u>	<u>(41.47)</u>	<u>0.43</u>	<u>(41.77)</u>	<u>0.73</u>

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 relevant to the Recommendation/Decision
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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.

Cross-Council Implications

No Cross-Council Implications

List of Background Papers

None

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