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| <b>TITLE</b>                | <b>Shareholders' Report</b>                  |
| <b>FOR CONSIDERATION BY</b> | The Executive on 29 June 2017                |
| <b>WARD</b>                 | None specific                                |
| <b>DIRECTOR</b>             | Graham Ebers, Director of Corporate Services |
| <b>LEAD MEMBER</b>          | Oliver Whittle, Executive Member for Finance |

## **OUTCOME / BENEFITS TO THE COMMUNITY**

Transparency in respect of Council Owned Companies

## **RECOMMENDATION**

The Executive is asked to note:

- 1) the budget monitoring position for the month ending 30 April 2017;
- 2) the operational update for the period to 31 May 2017;
- 3) the changes to the senior leadership structure of Optalis Limited.

## **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 May 2017.

### **Financial Report**

A budget monitoring report is provided for each of the companies for April 2017; the position for each of the companies is explained in paragraphs 1.1, 2.1 and 3.1 below.

### **Operational Update**

An operational update is provided for each of the companies as at 31 May 2017 in paragraphs 1.2, 2.2 and 3.2.

### **Changes to Directors**

Directors' resignations, appointments and other changes to the Companies' Boards as at 31 May 2017 are reported in paragraphs 1.3, 2.3 and 3.3.

### **Changes to Optalis Senior Leadership Structure**

#### **Background**

- In May 2017, Optalis Holdings Board, the company's shareholding board comprising elected Members from Wokingham Borough Council and the Royal

Borough, agreed to create a Chief Executive Officer (CEO) position. The new position has been created in order to lead and manage the larger company.

- Creating the position results in the deletion of the existing Managing Director position. Consultation has taken place with the existing postholder and the conclusion is that the current Managing Director will leave the company at the end of June 2017. An interim CEO has been appointed whilst a permanent CEO is recruited.

### **Reasons For Recommendation**

1. With the formation of the partnership between Wokingham Borough Council and the Royal Borough, Optalis has grown significantly in size and complexity. Previously a provider of a specific set of services, the company is now responsible for the full breadth of the statutory adult social care services for the Royal Borough, and some provider services for Wokingham Borough Council.
2. This new partnership has resulted in more than a threefold increase in the operating budget of Optalis from £11m to £40m. Further major growth is expected within the next two years, as the two Councils have expansion ambitions for the company through:
  - New councils joining the partnership.
  - The acquiring of contracts in the open market.
  - More private clients in the localities of the two partners.

3. Growth of leadership role

The existing leadership structure of the Company was designed to lead and manage the Company when it had an annual operating budget of £11m, and with a significantly narrower remit. The Chair of Optalis Ltd has reviewed the leadership structure of the Company, focusing on the strategic leadership, and specifically the position of the Managing Director. The Chair has proposed that the position of Managing Director, with a salary level of approximately £98k pa plus on-costs, is deleted, and a new position of Chief Executive Officer is created at a salary level of £125k - £135k pa plus on-costs. The Chief Executive Officer will focus in year one on taking the company forward through merging the two service areas, securing contracts and new partners, and will then be asked to develop further new growth opportunities.

4. Optalis will need support through the next few months during the transition, and it has been agreed that an interim appointment will be made pending permanent recruitment. This will ensure that the Company will operate safely and, crucially, that the consolidation of the partnership will be able to continue and not be delayed.

### **BACKGROUND**

**1. WBC (Holdings) Group Consolidated** (i.e. comprising WBC (Holdings) Ltd and Wokingham Housing Group (including Loddon Homes Ltd and Berry Brook Homes Ltd)).

#### **1.1 Financial Report**

At the operational level, the net deficit for the consolidated Group for April is £25k. The deficit after tax, interest and exceptional items is £69k. This is the first month reporting the consolidated Group without Optalis following the merger, the financial results for Optalis are reported in paragraph 2.1 below.

WBC (Holdings) Ltd (Holdco): A deficit of £16k after interest, tax and exceptional items is reported for April.

## 1.2 Operational Report

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

## 1.3 Changes to Directors

Norman Jorgensen (Chair) resigned as a Director of WBC Holdings Ltd and Pauline Jorgensen was appointed as a Director and Chair of WBC Holdings.

## 2. Optalis Group (i.e. comprising Optalis Ltd, Optalis Wokingham Ltd and Optalis Holdings Ltd.)

### 2.1 Financial Report

April results: The results for the month show a £5k profit which has arisen in the WBC division.

2016-17 Year End Results: The results for the year showed a pre-audit break-even position and currently, following the audit fieldwork, there are no proposed adjustments to these figures. An audit close meeting was held on 9th June 2017 which confirmed this position.

#### Overview of Actual and Forecast Outturn:

| Total Optalis     | Actual<br>Apr-17<br>Month<br>(£000) | Forecast<br>Mar-18<br>Full Year<br>(£000) |
|-------------------|-------------------------------------|---|
| Turnover          | 2,628                               | 44,375                                    |
| Costs             | (2,623)                             | (44,353)                                  |
| YTD Profit/(Loss) | 5                                   | 22  |

#### Risk/Mitigation:

Agency spend remains high and weekly management reviews continue, focusing on those elements which affect the use of agency including recruitment, retention and sickness absence.

Recruitment continues to be challenging and remains Optalis' greatest corporate risk as previously reported. Regular recruitment events are taking place with the addition of targeted use of social media and there is no let-up on the effort.

### 2.2 Operational Report

#### General:

- CQC compliance – there are no outstanding CQC compliance matters.
  - Mokattam underwent an inspection w/b 15 May. The outcome and draft report have yet to be received.
  - Homeside & Winston Court residential care homes are rated 'Requires Improvement' – a Continuous Improvement Plan (CIP) is in place and actions are progressing to plan.

- The manager of Suffolk Lodge is awaiting her interview to confirm her Registered Manager status.
- Contract/PIR requests have been received for Care at Home Berkshire and Care at Home Oxfordshire indicating that inspections are pending.
- The Task and Finish working group for START has reached a conclusion, having clarified criteria and care pathways for the service.
- The Task and Finish working group for Suffolk Lodge continues to meet. The Wokingham Integration Strategic Partnership (WISP) agreed at the meeting on 17 May to move the Step Down facility from Alexandra Place to Suffolk Lodge. The working group is now tasked with making this happen.
- The START service continues to struggle to recruit support workers resulting in potential risk in terms of being able to meet the contractual obligation of 250 hours.
- Sickness absence continued to be high in Wokingham at 13.46 annualised days during May with short term sickness in the month reducing to 6.48. There were a record 11 people on long term absence during April (over 30 continuous days); regular reviews are taking place with those still absent. Reliable sickness data has not yet been provided for April for the RBWM area so whole company data cannot be reported at this point. This matter is being pursued.
- The Optalis Care Governance Committee was held on 11 May; the meeting included provider managers from the RBWM area for the first time as we begin to integrate ways of working. The CGC focused on development of the Quality Assurance 'Safety Net' and implementation of new guidance for managers as well as learning from the recent START CQC inspection.
- The Customer Experience Champion has led specific projects over the past month, including: Piloting the Enhancing Lives outcomes methodology to ensure applicability and learning across older people and those with LD/complex needs; working with START on methods of customer feedback and with Nicholson House to build a library of customer stories ahead of the impending inspection; working with the customer experience expert by experience on his presentation to the STAR Awards event and working with partner agencies to put together a football tournament in LD week in June (instigated by a customer).

#### Business Development:

**Supported Employment:** The service is working with a national provider to examine how Optalis could provide Employment and Health Related Services (UAEHRS) through the DWP's Work and Health Programme.

**Nottingham Rehab Services (NRS):** The contract for OT assessments of double handed care calls is progressing to plan with all 65 assessments now having been received and are being actioned. The contract has since been extended to 73 assessments.

#### **2.3 Changes to Directors**

Mette Le Jakobsen, Managing Director, resigned the office of Executive Director.

### **3. Wokingham Housing Group** (i.e. comprising Wokingham Housing Ltd (WHL), Loddon Homes Ltd (LHL) and Berry Brook Homes Ltd (BBHL)).

#### **3.1 Financial Report**

Income & Expense: Income for April 2017 is £6.3k (equivalent to year to date). Income in the month is from rental income in Loddon Homes, which takes into account a 1% reduction in rental income as required by the Welfare Reform and Work Act 2016. This

figure is behind budget due to the income recognition profile not being in line with budget; however, this impact is expected to be negated over the full year.

Operating expenditure is underspent from budget by £9.1k in April. This variance relates to over-budgeting of professional fees by £3.7k and slower usage of marketing costs for new developments by £7.4k. Gross wages were £3.7k higher than expected due to under budgeting of NICs and PAYE for employees who received a bonus payment in the month. This is expected to normalise once the final bonus payment is made in May. All other operating expenditure was roughly in line with budget. As the first reported month of 2017/18, YTD expenditure is equivalent to the results for the month.

The Net Loss of £52.5k in the month and YTD is £7.7k ahead of budget.

**Balance Sheet:** Capital expenditure in April was £1,369.9k including construction contractor payments for Phoenix of £718.6k, Fosters of £469.1k and Grovelands of £58.7k and 52 Reading Road of £123.5k.

Net Assets for the Wokingham Housing Group were (£51k) at the end of April, which primarily reflects the net position at LHL due to the company lifecycle and debt financing of projects. The investment of £1,900,000 of £1 ordinary share capital invested in Wokingham Housing Limited remains unchanged.

Overview of April Income & Expenditure compared to Budget:

| Wokingham Housing Limited (Consolidated)                  |                 |                 |              |
|---|-----------------|-----------------|--------------|
| P01: April / Year To Date                                 |                 |                 |              |
| Profit and Loss Account for the period to 30th April 2017 | Actual          | Budget          | Variance     |
|   | £               | £               | £            |
| Income  | 6,344           | 7,112           | (768)        |
| Operating Expenditure                                     | (58,824)        | (67,320)        | 8,496        |
| Operating Loss  | <u>(52,480)</u> | <u>(60,208)</u> | <u>7,228</u> |

| Total Sub Group APRIL | Apr Actual     | Apr Budget     | Budget Variance | Prior Mth Actual | Prior Mth Variance |
|-----------------------|----------------|----------------|-----------------|------------------|--------------------|
|                       | (£000)         | (£000)         | (£000)          | (£000)           | (£000)             |
| Income                | 6.34           | 7.11           | (0.77)          | 7.96             | (0.94)             |
| Costs                 | <u>(57.14)</u> | <u>(65.63)</u> | <u>8.50</u>     | <u>(39.85)</u>   | <u>(15.54)</u>     |
| Operating Loss        | (31.89)        | (46.49)        | 14.60           | (31.89)          | 14.60              |
| Non Trading costs     | -              | -              | -               | -                | -                  |
| Depreciation          | (1.69)         | (1.69)         | (0.00)          | (2.13)           | (0.00)             |

|                 |                |                |             |                |              |
|-----------------|----------------|----------------|-------------|----------------|--------------|
| Loss before Tax | (52.48)        | (60.21)        | 7.73        | (34.02)        | 14.60        |
| Taxation        | -              | -              | -           | -              | -            |
| Net Loss        | <u>(52.48)</u> | <u>(60.21)</u> | <u>7.73</u> | <u>(34.02)</u> | <u>14.60</u> |

### 3.2 Operational Report

#### WHL Completed Schemes:

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

#### WHL Schemes In Progress/Under Development:

Phoenix Avenue (68 units): The first 22 houses at Phoenix Avenue were handed over in May and June and have all now been let. However, final lets were later than anticipated as the contractor missed their promised handover dates of 12th and 19th May, with the last 3 units being 4 weeks late. Discussions are taking place on rent loss and we are robustly testing the likely situation with the remaining 46 units due to be handed over by the end of August as the contractor continues to struggle to meet the revised targets made on delivering the units. We are now much less confident on the progress being made on completing the remaining units on time, although the budget is unaffected with any cost overruns due to delays being borne by the contractor.

The staff of the Local Housing Companies (LHC) and the Council worked very hard to get all the arrangements and relevant paperwork in place for the first tenants to move in. Despite the delays the first tenants have been delighted with the quality of their new homes.

Fosters Extra Care scheme (34 units): Progress at Fosters independent living scheme with care, continues to be on time and to budget. The work to progress management and care arrangements is in full swing with an Officer Board set up to facilitate the decisions needed on the care commissioning elements. The area of biggest risk lies around arrangements for any restaurant where currently two options are being investigated.

Grovelands (6 units): We continue to wait for a date for the electrical cable diversion works to commence which will enable us to press ahead with the two delayed units. We continue to chase SSE.

52 Reading Road (9 units): The project is on time and to budget and is progressing well with bricklaying already beginning to reach first floor level and lintel fitting taking place to progress further.

Anson Walk (4 units): Construction work has commenced through Francis Construction.

Barrett Crescent (2 units) and Elizabeth Road (2 units): Hoarding of the sites and the demolition of the garages has now commenced with Francis Construction.

Pipeline Sites: Tenders for Middlesfield (2 units) have now come back, but only one contractor bid. The Employers Agent is reviewing this bid and comparing to current costs for other projects and their market intelligence. The costs look high and we may want to look at a plan B for letting this contract to achieve better value for money.

Norton Road (9 units) is currently out to tender and Tape lane (11 units for WBCs Housing Services) will be going out to tender shortly.  
 We continue to progress the joint venture scheme at Finch Road (2 units) with Burwood Development and are moving towards a start on-site date.  
 Six other projects (c.120 units) continue to be progressed through planning or appraisal stage pre any planning submission.

### 3.3 Changes to Directors

There have been no changes of directors since the last report.

## 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

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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