

<b>TITLE</b>	<b>Shareholder's Report</b>
<b>FOR CONSIDERATION BY</b>	The Executive on 28 September 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, 21 <sup>st</sup> Century Council, Internal Services and Human Resources

## **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 31 July 2017;
- 2) the operational update for the period to 31 July 2017;

## **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 2017.

### **Financial Report**

A budget monitoring report is provided in section 1 for each of the companies for July 2017.

### **Operational Update**

An operational update is provided in section 2 for each of the companies as at 31 July 2017. Any changes to the Directorships of the companies is provided at the end of the relevant company's operational update.

## **BACKGROUND**

### **1. Financial Report**

**WBC (Holdings) Group Consolidated** (comprising WBC (Holdings) Ltd (Holdco), Wokingham Housing Ltd, Loddon Homes Ltd and Berry Brook Homes Ltd).

### **WBC (Holdings) Group Consolidated - Profit & Loss**

	P4: Jul-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	96	99	-3	318	323	-5
Expenditure	<u>-154</u>	<u>-155</u>	<u>1</u>	<u>-570</u>	<u>-599</u>	<u>29</u>
Operating Loss	<u>-58</u>	<u>-56</u>	<u>-2</u>	<u>-252</u>	<u>-276</u>	<u>24</u>

There were no major variances to budget for WBC (Holdings) Ltd. Variances to budget for the individual companies are explained under the relevant sections below.

### **Wokingham Housing Limited (WHL)**

#### **Wokingham Housing Limited - Profit & Loss**

	P4: Jul-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	0	0	0	0	0	0
Expenditure	<u>-29.8</u>	<u>-29.7</u>	<u>-0.1</u>	<u>-119.3</u>	<u>-133.1</u>	<u>13.8</u>
Operating Loss	<u>-29.8</u>	<u>-29.7</u>	<u>-0.1</u>	<u>-119.3</u>	<u>-133.1</u>	<u>13.8</u>

Income & Expense: WHL recorded no income in the month of July, in line with expectations. Overhead costs in the month were roughly in line with budget. The net loss of £29.8k in the month was roughly in line with expectations while the year to date net loss of £119.3k reflects a £13.8k favourable variance compared to the budgeted loss.

### **Loddon Homes Limited (LHL)**

#### **Loddon Homes Limited - Profit & Loss**

	P4: Jul-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	4.3	7.1	-2.8	27.70	28.4	-0.7
Expenditure	<u>-15.1</u>	<u>-14.6</u>	<u>-0.5</u>	<u>-59.5</u>	<u>-59.8</u>	<u>0.3</u>
Operating Loss	<u>-10.8</u>	<u>-7.5</u>	<u>-3.3</u>	<u>-31.8</u>	<u>-31.4</u>	<u>-0.4</u>

Income & Expense: Income of £4.3k in the month of July for Loddon Homes Limited included rental income from the Hillside and Vauxhall Drive properties. However, this is lower than expected by £2.7k, primarily due to unwinding accruals for service charges. On a year-to-date basis, income of £27.7k is £0.7k lower than budgeted.

Direct costs are overspent by £0.7k, due to higher than expected water rates charges coupled with under accrual in prior months. Overheads show a favourable variance of £0.1k in July against the revised budget. Most expenditure items were close to budget and continued careful monitoring of expenditure is necessary to ensure this trend continues. However, overheads are overspent year-to-date by £0.8k, reflecting higher

than anticipated marketing costs as highlighted in May and these are expected to revert to more normal levels the rest of the year.

A Net Loss of £12.4k in the month reflects an unfavourable variance of £3.3k versus the budget while the year to date net loss of £38.5k is £0.8k higher than the budgeted loss.

### **Berry Brook Homes Limited (BBHL)**

#### **Berry Brook Homes Limited - Profit & Loss**

	P4: Jul-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	16.2	16.3	-0.1	27.3	32.2	-4.9
Expenditure	<u>-10.3</u>	<u>-11.7</u>	<u>1.4</u>	<u>-33.7</u>	<u>-49.2</u>	<u>15.5</u>
Operating Profit	<u><u>5.9</u></u>	<u><u>4.6</u></u>	<u><u>1.3</u></u>	<u><u>-6.4</u></u>	<u><u>-17</u></u>	<u><u>10.6</u></u>

Income & Expense: Income of £16.2k in the month of July for Berry Brook Homes Limited included expected rental income from the Phoenix development only. This was roughly in line with the revised budget. Direct costs of £0.8k were £1.1k better than the revised budget. Overheads of £9.4k showed a £0.3k favourable variance versus the revised budget.

Overall, BBHL experienced a £5.9k net profit for the month, which was £1.4k more than budgeted, while the year to date net loss of £6.4k is £10.6 lower than budgeted

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

#### **Optalis Group Consolidated - Profit & Loss**

	P4: July-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	3,690	3,726	-36	14,808	14,909	-101
Expenditure	<u>-3,688</u>	<u>-3,724</u>	<u>36</u>	<u>-14,802</u>	<u>-14,902</u>	<u>100</u>
Operating Profit	<u><u>2</u></u>	<u><u>2</u></u>	<u><u>0</u></u>	<u><u>6</u></u>	<u><u>7</u></u>	<u><u>-1</u></u>

July 2017 results: The results up to the end of July 2017 are showing a combined profit of £6k. We have provided against the potential financial risks to the Company and currently we are performing to budget.

#### Risk/Mitigation:

Retention, recruitment to posts, use of agency staff and absences are reviewed by staff weekly and SMT monthly and these are key priorities for management.

Reporting KPIs are being developed across both sides of the services to ensure that the executive team are made aware of trends and issues before they become

problems. The final KPIs will provide equitable comparisons between the two sets of services and identify best practices to be adopted across the whole company.

## **2. Operational Report**

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

#### **Phoenix Avenue (68 units):**

In the July executive report, WHL advised that there was a delay in the delivery for the completed homes at Phoenix Avenue. Unfortunately the delay has worsened and the scheme will not now be fully completed until early December 2017. In total 38 units will be completed the end of October, but 8 of the units will remain outstanding, with the very last five units only being handed over in early December. WHL have met with Hill and expressed our frustration and displeasure. A recalculation of the Liquidated and Ascertained Damages (LADs) has been assessed and is estimated to be in the region of £75k, assuming that Hill cannot justify any reasons for the latest delays. Hill agreed to meet with the Holding Company on September 8<sup>th</sup> to answer questions regarding the delays and explain what they are doing to deliver the project.

**Fosters Extra Care scheme (34 units):** Fosters continues to be on budget. However, Leighfields have informed WHL that there is a delay in the delivery and installation of the lifts which will impact on the date that residents can move in to first floor apartments. We expect this will have little impact on the estimated rate of lettings, which are planned to be staggered over the first couple of months of the scheme opening.

**Grovelands (6 units):** We continue to wait for a date for the electrical cable diversion works to be able to properly start plots 1 and 2. Plots 4 to 6 will be handed over on 27<sup>th</sup> September, although plot 3 will then be used as a site office to reduce the ongoing preliminary costs of the contractor. WHL continue to chase SSE on undertaking their work on the electrical cable diversion work, especially as the relevant legal agreements are now all in place.

The delays have now meant that both the contingency and WHLs full Overhead and Profit for this project are likely to be used up. WHL will be looking to recoup the additional costs from the relevant parties implicated in not identifying the electrical cable's existence, so that the project is still profitable for WHL.

**52 Reading Road (9 units):** The project is on time and to budget and is progressing well.

**Anson Walk (4 units):** The scheme continues to progress well, although we have no further information on any additional costs likely to be incurred in moving the electrical cable also found unexpectedly across the site. Again for any additional costs we incur, we will be looking to recoup in full from the surveying company who undertook the initial site survey work.

**Barrett Crescent (2 units):** The foundations have been laid, the block and beam flooring is installed and the masonry above ground commenced. The project is in line with time frames and budget expectations.

**Elizabeth Road** (2 units): The foundations have been laid, the block and beam flooring is installed and the masonry above ground commenced. The project is in line with time frames and budget expectations.

### **Pipeline Sites:**

Given the lack of contractor interest to date in the build of Middlefields, the Commissioner has been looking to sell this Housing Revenue Account site with the benefit of a planning permission. Before finally deciding this – WHL are looking at one last way to tender the scheme and obtain a viable project cost.

LifeBuild have been appointed as the contractor for Norton Road (9 units) following a competitive tender process. Work is anticipated to start in October 2017.

Tape Lane (11 units for WBCs Housing Services) is moving towards being tendered, taking into account the need to work closely with Housing Services on the decanting of existing residents.

The joint venture at Finch Road (2 units) with Burrwood Development is progressing well and we are hoping to start on site in November 2017. Currently we are undertaking some soil testing on the site and progressing the release of the covenants attached to the two existing units due to be demolished, which will then lead to the land swap required for WHL to build the two shared ownership homes. A build price with Francis Construction - named in the joint venture agreement, has been reviewed by our Employers Agent and represents good value for money. The Employers Agent is also progressing Heads of Terms.

Work to try and progress future pipeline projects is continuing through appraisal work and work on planning applications. These include Gorrick Square (1 supported housing units), Cockayne Court/ Gorse Ride (c.35-45 units), Woodley Age Concern site (c.12-20 units), Area DD (c.26-30 units) and Wellington Road/ Station Road (c. 16-20 units for private rent).

### **Changes to Directors**

Nothing to report.

### **Loddon Homes Limited (LHL)**

#### **Completed Schemes:**

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

#### **Schemes under construction:**

As well as managing existing units Loddon have continued to focus on working with WBC and Optalis on the arrangements for the housing management and care provision at Fosters Extra Care scheme. This has been complicated by the adult social services lead leaving and being replaced, requiring additional support to the new lead to get up to speed with what has been done and what is still outstanding. Contingency plans are now being put in place to manage the potential issue of the lifts not being ready by early November, leaving only the ground floor available for

letting. An assessment of residents' safety while this work takes place is a key part of the work being co-ordinated with WHL.

The award to Sophie's Catering for the contract for managing the Fosters restaurant is now being finalised along with the specification and contract details.

A dedicated WBC Housing Officer working on letting and managing Loddon and Berry Brook stock started in post in mid-August and is seen as important in helping the Loddon Board be reassured about the services provided by WBC to residents.

### **Changes to Directors**

Nothing to report.

### **Berry Brook Homes Limited (BBHL)**

Most efforts are continuing to support the first new residents at Phoenix Avenue through WBC Housing Services, especially around snagging issues and ensuring Hill advice on what and when snags are being addressed.

The ongoing delays at Phoenix Avenue are a real frustration, where we expected to have all homes let and income coming in by this point. Liquidated and Ascertain Damages (LADs) will cover rent loss.

The dedicated WBC Housing Officer working on letting and managing Berry Brook and Loddon Homes' stock started in post in mid-August and we expect to be able to help with managing better communication around defects, once they have started to settle in to their new role.

### **5.3 Changes to Directors**

Nothing to report.

### **Optalis Limited**

#### **General:**

Recruitment for the permanent Chief Executive of the new larger Optalis has been completed. The new Chief Executive started in post on 5<sup>th</sup> September and there is a planned 6-week handover process with the interim CEO.

The CQC Inspection Report on the Oxfordshire Care at Home service came back with an Overall Rating of "GOOD".

The CQC Inspection Report on the Allenby Road LD Respite service came back with an Overall Rating of "GOOD".

The CQC Inspection Report on the Optalis Homecare service came back with an Overall Rating of "Requires Improvement". Improvement plans are in place and progressing.

A recent CQC inspection of Suffolk Lodge has taken place and we are waiting for the CQC Inspection Report.

Progress on Major Corporate Projects:

No new major corporate projects have been initiated

Business Development:

The Royal Borough is holding a workshop at the NCAS in October that will include the transferring of commissioning and provider services into Optalis Ltd. This will be aimed at all interested councils and is designed to provoke further interest in partnership working and possible consultancy work.

**2.3 Changes to Directors**

Martin Farrow is in post as the permanent CEO but has not been appointed a statutory director yet.

**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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