

TITLE	Shareholder's Report
FOR CONSIDERATION BY	The Executive on 26 October 2017
WARD	None specific
DIRECTOR	Graham Ebers, Director of Corporate Services
LEAD MEMBER	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 31 August 2017;
- 2) the operational update for the period to 31 August 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 September 2017.

Financial Report

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

Operational Update

An operational update is provided in section 2 for each of the companies as at 31 August 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			Cumulative		
	Actual	P5: Aug-17 Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	104	102	2	422	425	-3
Expenditure	<u>-181</u>	<u>-159</u>	<u>-22</u>	<u>-762</u>	<u>-758</u>	<u>-4</u>
Operating Loss	<u><u>-77</u></u>	<u><u>-57</u></u>	<u><u>-20</u></u>	<u><u>-340</u></u>	<u><u>-333</u></u>	<u><u>-7</u></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			Cumulative		
	Actual	P5: Aug-17 Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	0	0	0	0	0	0
Expenditure	<u>-44.1</u>	<u>-29.9</u>	<u>-14.2</u>	<u>-173.5</u>	<u>-163.1</u>	<u>-10.4</u>
Operating Loss	<u><u>-44.1</u></u>	<u><u>-29.9</u></u>	<u><u>-14.2</u></u>	<u><u>-173.5</u></u>	<u><u>-163.1</u></u>	<u><u>-10.4</u></u>

Income & Expense: WHL recorded no income in the month of August, in line with expectations. Overhead costs in the month were £14.2k higher than budgeted due to unforeseen legal costs and this translated into an unfavourable variance for the month. The year to date net loss of £173.5k reflects a £10.4k unfavourable variance compared to the budgeted loss.

Loddon Homes Limited (LHL)

	Loddon Homes Limited - Profit & Loss			Cumulative		
	Actual	P5: Aug-17 Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	7.3	7.1	0.2	35.0	35.6	-0.6
Expenditure	<u>-14.4</u>	<u>-14.6</u>	<u>0.2</u>	<u>-77.3</u>	<u>-74.5</u>	<u>-2.8</u>
Operating Loss	<u><u>-7.1</u></u>	<u><u>-7.5</u></u>	<u><u>0.4</u></u>	<u><u>-42.3</u></u>	<u><u>-38.9</u></u>	<u><u>-3.4</u></u>

Income & Expense: Income of £7.3k in the month of August for Loddon Homes Limited included rental income from the Hillside and Vauxhall Drive properties, which is roughly in line with budgeted income. On a year-to-date basis, income of £35.0k is £0.6k lower than budgeted.

Direct costs are overspent by £0.5k, due to higher than expected utility charges in the month. Overheads show a favourable variance of £0.5k in August against the budget, where most expenditure items were close to budget. However, overheads are overspent year-to-date by £0.5k, reflecting higher than anticipated marketing costs in May, which have reverted to more normal levels in recent months.

A net loss of £7.1k in the month reflects a £0.4k favourable variance compared to the budget while the year to date net loss of £42.3k is £3.4k higher than the budgeted loss due to a budgeted service charge increase that has not materialised.

Berry Brook Homes Limited (BBHL)

Berry Brook Homes Limited - Profit & Loss						
	P5: Aug-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	15.1	16.3	-1.2	42.4	48.5	-6.1
Expenditure	-9.4	-11.7	2.3	-47.6	-60.9	13.3
Operating Profit	<u>5.7</u>	<u>4.6</u>	<u>1.1</u>	<u>-5.2</u>	<u>-12.4</u>	<u>7.2</u>

Income & Expense: Income of £15.1k in the month of August for Berry Brook Homes Limited included rental income from the Phoenix development only and was £1.2k under budget due to project delays. Direct costs of £1.4k were £0.5k better than the revised budget due to lower than budgeted maintenance costs. Overheads of £8.0k showed a £1.8k favourable variance versus budget.

Overall, BBHL recorded a £5.7k net profit for the month, which was £1.1k higher than budgeted, while the year to date net loss of £5.2k is £7.2k lower than budgeted due to lower than expected costs as a result of the project delays.

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

Optalis Group Consolidated - Profit & Loss						
	P5: August-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	3,660	3,727	-67	18,533	18,709	-176
Expenditure	-3,655	-3,726	71	-18,522	-18,701	179
Operating Profit	<u>5</u>	<u>1</u>	<u>4</u>	<u>11</u>	<u>8</u>	<u>3</u>

August 2017 results:

Operating profit for the month was ahead of budget and contributed to a positive year to date position as at the end of August 2017 of £11k. Our budget planning takes in to account provision against the potential financial risks to the Company.

2. Operational Report

WHL Schemes In Progress/Under Development:

Phoenix Avenue (68 units):

41 of the 68 units have now been handed over – but phase 3 units were again late against their revised completion date. Full liquidated damages of c.£17k/ week are being applied to all future valuations. 15 (instead of 19 units) are due to be handed over at the end of October, 7 units in middle of November and 5 units in early December. To date the net valuation is around 90% of the total contract price.

Fosters Extra Care scheme (34 units):

Leighfield are now 3 weeks behind their build programme. However, the key issue on delivery are the delays to the lifts where installation dates have been confirmed for the 13th and 27th November respectively, with 2 to 3 week installation periods. Therefore the full completion date is now looking like end of November with the exception of one lift which should be operational by mid-December. To date the net valuation is around 77% against the total contract price.

Grovelands (6 units):

Grovelands remains a frustration, as we continue to chase SSE to fix a date to move the electrical cable that is holding up the construction of plots 1 and 2. Three of the six homes are due to be handed over in November – using the fourth as a site office to minimise the contractor's preliminary costs. WHL are discussing with Francis Construction how we can minimise prelim costs if the delay to SSE moving the cable continues to be unresolved. There are cost implications and there will be budget over-runs as a result of the delays which impact directly on WHL. Hence the desire to reduce prelim costs to a minimum. WHL will be looking to recoup additional costs from the relevant parties implicated in not identifying the electrical cable's existence in advance of the on-site period.

52 Reading Road (9 units):

The programme is now slightly behind expectations due to problems in procuring tiles and insulation (an industry wide issue at present). This is now resolved, but the importance of completing the scheme by the end of March 2018 is understood by all parties in order to meet the conditions around the HCA grant funding. We are in discussion with LIFEbuild on how they will catch up some of the lost time, as there now remains no slack in the programme for any other delay to be able to still achieve the end of March 2018 completion deadline.

Anson Walk (4 units):

The programme is in line with the timetable, but we are awaiting a date for SSE to divert the high voltage cable that needs to be moved. We are unable to occupy the building until the cable has been diverted so this is critical to achieving completion and being able to let the flats. The latest financial forecast is that the build will be slightly

over the contract sum. Any additional costs we incur will be looked to be fully recouped from the parties at fault – in this instance the original architect and utilities surveying company.

Barrett Crescent (2 units):

Barrett Crescent is progressing well and is on time and to budget.

Elizabeth Road (2 units):

Elizabeth Road is progressing well and is on time and to budget.

Pipeline Sites:

Norton Road is progressing with LIFEbuild undertaking site preparation for their start on site in November. An additional HCA grant bid for the three affordable rented units was successful and will add to the shared ownership grant previously secured.

Tape Lane (11 units for WBCs Housing Services) is progressing with technical drawings being developed to put in to the eventual tender. A planning application for minor amendments was submitted at the 11th October 2017 Planning Committee and was successful. WBC Housing Services are working towards completing decanting by January 2018.

The joint venture at **Finch Road** (2 units) with Burrwood Developments has received WHL and WBC Holdings Company Board approval to appoint Francis Construction as the contractor. A start on site date of mid-November is expected.

We continue to work towards trying to re-tender **Middlefields** with contractors we have not used to date who are outside our existing Small Contractors Framework.

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

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

Loddon Homes Limited (LHL)

General update:

The latest business plan forecasts were discussed at the September Board. They show the company has a strong future in meeting its key objectives of providing affordable homes for those in need within the borough, while also providing an ongoing income stream for Council services. Loddon Homes is expected to become profitable in 2018/19 and the draft Business Plan will be going to Holdco in November.

Completed Schemes:

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

Schemes under construction:

Loddon Homes are working with WBC and Optalis on arrangements for the housing management and care at Fosters Extra Care scheme. The main areas being finalised are service charge budgets and the contract for catering. Work is progressing on how best to manage the potential lift delay issues, where we may only be able to offer new tenants ground floor apartments until late November when one lift will become operational. Letting plans are being carefully co-ordinated with WBC, who are having to take account of letting Housing Solutions' Extra Care scheme at The Birches and how best to re-house Cockayne Court residents, due to close at the end of 2017. As Commissioner, the Council has also expressed their desire not to let any apartments until the whole building is fully complete. With Christmas often a problematical time to let new homes, this may mean Foster could start to be let during November, but not complete until January 2018. The Loddon Homes Board will want to consider this position and assess the impact of lost rental income over what could be received.

Changes to Directors

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

Berry Brook Homes Limited (BBHL)

General update:

Berry Brook Homes' website is now live. Despite the impact of Phoenix Avenue delays, the business plan financials look positive and show Berry Brook should have a strong future in meeting the key objectives of providing affordable homes and an ongoing income stream for WBC. It is estimated the company will be profitable in 2020/21, having broken even in 2019/20. A draft of the business plan will be presented to Holdco at the November meeting.

Completed Schemes:

There are no operational changes at Phoenix Avenue since our last report. The new housing officer, employed by WBC Housing Services to focus on Local Housing Company properties, is working hard on supporting the new Phoenix Avenue residents and letting the latest homes being handed over.

Schemes under construction:

Handover dates again slipped at Phoenix Avenue and Berry Brook have now agreed with WHL that they will no longer do viewings with prospective tenants until the homes have actually been handed over by Hill to WHL. Maximising rental income will therefore be frustrated, but reputational damage from constantly advising new tenants that their move-in date has been delayed outweighs the benefits of the additional income.

Changes to Directors

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

Optalis Limited

General:

The new CEO has successfully been recruited with a confirmed starting date of September 5th. The interim CEO will remain in post for a further month to support the new CEO in his induction and ensure a robust handover takes place.

Staff

Recruitment and retention remains a focus for the organisation, supported by proactive recruitment campaigns and regular reviews.

Quality

The recent CQC inspection of Suffolk Lodge has resulted in an overall rating of "requires improvement". Improvement plans have been established and are being actioned.

Business development

We are working closely with Wokingham_Borough Council in relation to the provision of support in the new Extracare housing schemes in Fosters and Birches.

Strategy

With the arrival of the new CEO in September, work will begin to formulate a 3 year strategy for the organisation focussed on delivering quality, value and growth.

Changes to Directors

The new CEO will be registered upon his arrival.

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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