

TITLE	Shareholder's Report
FOR CONSIDERATION BY	The Executive on 30 November 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 30 September 2017;
- 2) the operational update for the period to 30 September 2017.

SUMMARY OF REPORT

The Council have established a group of housing subsidiaries to provide much needed affordable housing across the Borough and generate a financial return for the Council. This return will help towards its aspiration of becoming increasingly self-sufficient. At a high level the housing group has now become well established and will see Wokingham Housing (WHL) handing over 125 new homes in the financial year to its sister housing companies Loddon and Berry Brook Homes and will generate a profit of £1.1m. In 2018/19 WHL will hand over a further 60 new homes at a profit of just short of £1m. Year on year WHL will deliver 50-70 homes per year generating an ongoing profit of at least £1m per annum.

Optalis was established to be the provider of choice for Adult Care Services. Its key objectives were to reduce the cost of services commissioned by the Council and provide a financial return to the Council, whilst providing safe and good quality Adult Social Care Services. To date over £1m per annum costs have been reduced in the cost to the Council and the business has expanded from approximately £11m p.a. to £40m p.a. following a recent merger with RBWM. This will enable Optalis to create further financial returns through its economies of scale and place the company in a stronger position to generate additional streams of income.

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 September 2017.

Operational Update

An operational update is provided in section 2 for each of the companies as at 30 September 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

	P5: Aug-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	112	109	3	534	534	0
Expenditure	-155	-162	7	-916	-920	4
Operating Loss	-43	-53	10	-382	-386	4

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

	P6: Sep-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	0	0	0	0	0	0
Expenditure	-18.4	-35.5	17.1	-194.4	-198.6	4.2
Operating Loss	-18.4	-35.5	17.1	-194.4	-198.6	4.2

Income & Expense: WHL recorded no income in the month of September, in line with expectations. Overhead costs in the month were £17.1k lower than budgeted due to lower marketing costs and professional fees than expected. The year to date operating loss of £194.4k reflects a £4.2k favourable variance compared to the budgeted loss.

Loddon Homes Limited (LHL)

Loddon Homes Limited - Profit & Loss

	P6: Sep-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	6.7	7.1	-0.4	42.8	42.7	0.1
Expenditure	-14.2	-15.2	1.0	-96.2	-89.7	-6.5
Operating Loss	-7.5	-8.1	0.6	-53.4	-47.0	-6.4

Income & Expense: Income of £6.7k in the month of September for LHL included rental income from the Hillside and Vauxhall Drive properties, which reflects a £0.4k negative variance. On a year-to-date basis, income of £42.8k is roughly in line with budgeted income.

Direct costs are £1.0k lower than budget, due to lower than expected utility charges in the month. Overheads are overspent year-to-date by £10.1k, reflecting higher than anticipated marketing costs earlier in the year in addition to higher than budgeted recruitment expenses.

The operating loss of £7.5k in the month reflects a £0.6k favourable variance compared to the budget while the year to date net loss of £53.4k is £6.4k higher than the budgeted loss.

Berry Brook Homes Limited (BBHL)

Berry Brook Homes Limited - Profit & Loss

	P6: Sep-17			Cumulative		
	Actual £000	Budget £000	Variance £000	Actual £000	Budget £000	Variance £000
Income	17.7	22.1	-4.4	60.2	70.6	-10.4
Expenditure	-8.5	-13.8	5.3	-54.7	-74.7	20.0
Operating Profit/(Loss)	9.2	8.3	0.9	5.5	-1.1	9.6

Income & Expense: Income of £17.7k in the month of September for BBHL included rental income from the Phoenix development only and was £4.4k under budget due to delays in handover of the properties. On a year-to-date basis, income of £60.2k is £10.4k under budget for 2017/18.

Direct costs of £1.0k were £2.6k better than budget due to lower than budgeted maintenance costs and handover delays. Year-to-date direct costs of £4.3k represent a £6.0k favourable variance compared to budget. Overheads of £7.6k showed a £2.7k favourable variance versus budget, and the year-to-date overhead expenditures of £50.3k represent a £14k favourable variance compared to budget.

Overall, BBHL recorded a £9.2k operating profit for the month, which was £0.9k higher than budgeted, while the year to date operating profit of £5.5k is £9.6k higher than budgeted.

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

Optalis Group Consolidated - Profit & Loss

	P6: Sep-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	3,697	3,731	-34	22,182	22,398	-216
Expenditure	<u>-3,685</u>	<u>-3,730</u>	<u>45</u>	<u>-22,159</u>	<u>-22,387</u>	<u>228</u>
Operating Profit	<u>12</u>	<u>1</u>	<u>11</u>	<u>23</u>	<u>11</u>	<u>12</u>

September 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 September 2017 of £23k. This is driven by the Royal Borough Services underspending to budget, they are running with various vacant positions.

Our budget planning takes into account provision against the potential financial risks to the Company.

2. Operational Report

WHL Schemes In Progress/Under Development:

Summary:

At present WHL has 84 homes under construction over 9 sites. To date WHL has passed over for management to Loddon Homes and Berry Brook Homes 68 units. There are approximately 130 potential units in the development pipeline.

WHL is predicting it will be profitable from this financial year (2107/18) and have cleared all working capital debt by November 2018, when the company will be completely self-funding.

SITE:	PROGRESS:
Phoenix Avenue (68 units)	<ul style="list-style-type: none"> • 52 of the 68 units have now been handed over. • The 11 phase 4 units were handed over on time against the revised timetable. • Liquidated and ascertained damages (LAD) of £96k were applied to the last payment to Hill. • The remaining 16 units are due to be handed over in mid-November and mid-December. • To date the net valuation is c. £10.6m against the contract sum of £11.4m – c. 93%. • An official opening event is proposed for the New Year with a Christmas event for residents planned for December.
Fosters (34 units)	<ul style="list-style-type: none"> • Leighfields are expecting to formally handover Fosters in the first week of January, to coincide with lift completion works and the Commissioners timetable for moving in the first residents.

	<ul style="list-style-type: none"> • There are no additional costs for WHL attached to the slightly extended completion date. • To date the net valuation is c. £5m against the contract sum of £5.9m – c. 84%.
Grovelands (6 units)	<ul style="list-style-type: none"> • Handover of the first four plots that are now completed are expected in mid-December due to the water supply utility company being delayed in making the connection to the mains supply. • The two plots not started as a result of the high voltage cable that needs to be moved are finally booked in to take place in January 2018 to allow the construction of the units outstanding. • To date the net valuation is £938k against the contract sum of £1.1m – c. 86%.
Reading Road (9 units)	<ul style="list-style-type: none"> • The scheme is progressing well and is on time for completion by end March 2018 and to budget. • To date the net valuation is £536k against the contract sum of £1.1m – c. 50%.
Anson Walk (4 units)	<ul style="list-style-type: none"> • The original completion date has slipped very slightly to late December 2017. The delay is caused by a later date being given from SSE to divert a high voltage cable which needs to be re-routed. • To date the net valuation is £432k against the contract sum of £613k – c. 70%.
Barrett Crescent (2 units)	<ul style="list-style-type: none"> • Barrett Crescent is progressing well and is on time and to budget. • To date the net valuation is £178k against the contract sum of £398k – c. 45%.
Elizabeth Road (2 units)	<ul style="list-style-type: none"> • Elizabeth Road is progressing well and is on time and to budget. • To date the net valuation is £252k against the contract sum of £536k – c. 47%.
Norton Road (9 units)	<ul style="list-style-type: none"> • LIFEbuild are progressing site preparation for their start on site in November.
Finch Road (2 units)	<ul style="list-style-type: none"> • Francis Construction are starting on site in early December.

Pipeline Sites:

Tape Lane (11 units for WBCs Housing Services): Work progresses to deliver this WBC scheme. The planning application in October for minor amendments was successful. WBC Housing Services are working towards completing decanting by January 2018.

Middlesfields (2 units): We continue to work towards trying to re-tender this scheme with companies we have not yet used and who are not on our 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, although approval to appoint a further independent Non-Executive Director has been given by Holdco to create a Board of four.

Loddon Homes Limited (LHL)

General update:

Loddon Homes is forecasting that it will be profitable from 2018/19 onwards.

Completed Schemes:

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

Schemes under construction:

Loddon Homes' work is focussed on ensuring the management and care arrangements at Fosters are in place in time for its opening in January 2018. There is still significant work to be undertaken to agree and put in place the Operational Agreement which is being led on by Adult Social Care (ASC).

Expert advice has now been received on the service charge budget for eligible and non-eligible Housing Benefit items and further meetings with ASC and Loddon Homes are programmed.

Agreement has been reached around how to manage the lift delays and the Commissioner has decided to start the letting of Fosters from early January 2018.

Changes to Directors:

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

Berry Brook Homes Limited (BBHL)

General update:

The operational arrangements of Berry Brook Homes continue to evolve. The Articles of Association will soon be in place with Holdco's sign-off. A timetable of policy production has been discussed and is shortly to be agreed along with the Key Performance Indicators (KPI) reporting arrangements and KPI targets.

Current business plan forecasting is estimating that the Company will become profitable from 2019/20 onwards, having effectively broken even in 2018/19.

Completed Schemes:

There are no major operational changes at Phoenix Avenue since our last report, although there has been some improvements in the management in the defects issues common with new developments.

Schemes under construction:

Phoenix Avenue has seen the handover of phase 4 units – 11 apartments – which are in the process of being let. Not allowing viewings until actual handover has meant Berry Brook has been able to protect its reputation better with new tenants, albeit at the expense of some minor rent loss.

The Company is also gearing up for the letting of the next schemes about to complete at Grovelands, Winnersh and Anson Walk, Shinfield.

Changes to Directors:

There have been no changes to Berry Brook Homes' company directors since the last report, apart from the existing non-Executive Board member Robin Roberts being appointed vice-chair.

Optalis Limited

General:

The new CEO has visited all services across the organisation, and is now working toward establishing a 2020 strategy, based on integrating, building and growing the organisation. Part of that process will involve meeting with teams and customers so the plan can be formed together.

Staff

Vacancy rates are improving driven by pro-active recruitment campaigns across the region when compared across the year.

Quality

CQC inspections have taken place at two of our services in Maidenhead. Whilst the services were rated good in terms of care and responsiveness, improvements are required, and are currently being addressed.

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.

2.3 Changes to Directors

There have been no changes 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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