

TITLE	Shareholder's Report
FOR CONSIDERATION BY	The Executive on 25 January 2018
WARD	None specific
DIRECTOR	Graham Ebers, Director of Corporate Services
LEAD MEMBER	Oliver Whittle, Executive Member for Finance, 21 st 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 30 November 2017;
- 2) the operational update for the period to 30 November 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 November 2017.

Financial Report

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

Operational Update

An operational update is provided in section 2 for each of the companies as at 30 November 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						
	P8: Nov-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	642	6,057	(5,415)	8,735	6,724	2,011
Expenditure	(673)	(5,519)	(4,846)	(9,186)	(6,617)	(2,569)
Operating Profit/ (Loss)	(31)	538	(569)	(451)	107	(558)

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. The year-end financial position is projected to break-even against budgets of £21.12m income and £20.36m expenditure.

Wokingham Housing Limited (WHL)

Wokingham Housing Limited - Profit & Loss						
	P8: Nov-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	505	5,908	(5,403)	7,954	5,908	2,046
Expenditure	(533)	(5,338)	4,805	(8,199)	(5,567)	(2,632)
Operating Profit/ (Loss)	(28)	570	(599)	(245)	341	(586)

Income & Expense: Certain accounting changes have been implemented to reflect FY16/17 audit requirements. As such, payments for assets under construction are treated as income along with the corresponding expense in the month. Prior months have been adjusted to reflect this change.

WHL recorded income of £505.5k in the month of November. This was below expectations due to budget assumptions not reflecting the accounting changes as well as delays in the completion of Fosters. Overhead costs in the month were £1.3k lower than budgeted due lower professional fees than budgeted. The year to date operating loss of £244.9k reflects a £586.2k negative variance compared to the budgeted loss.

The negative variances against the budget are primarily a result of delays in the completion of Fosters, where overhead and profit is paid upon completion. Receipt and payment of commuted sums through the system is expected to put WHL in a net profit position and reduce its negative variance.

Loddon Homes Limited (LHL)

Loddon Homes Limited - Profit & Loss						
	P8: Nov-17			Cumulative		
	Actual £000	Budget £000	Variance £000	Actual £000	Budget £000	Variance £000
Income	7	7	(0)	58	57	1
Expenditure	<u>(14)</u>	<u>(24)</u>	<u>10</u>	<u>(121)</u>	<u>(128)</u>	<u>7</u>
Operating Profit/ (Loss)	<u>(7)</u>	<u>(16)</u>	<u>10</u>	<u>(63)</u>	<u>(71)</u>	<u>8</u>

Income & Expense: Income of £6.7k in the month of November 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 £57.4k is slightly ahead of budgeted income.

Expenditure of £13.6k was £9.8k less than budget. The delay in completion at Fosters contributed to reduced direct property costs whilst gross wages were lower than budgeted as the new service and compliance officer started later than anticipated.

The operating loss of £6.9k in the month reflects a £9.4k favourable variance compared to the budget while the year to date net loss of £63.5k is £7.8k lower than the budgeted loss.

Berry Brook Homes Limited (BBHL)

Berry Brook Homes Limited - Profit & Loss						
	P8: Nov-17			Cumulative		
	Actual £000	Budget £000	Variance £000	Actual £000	Budget £000	Variance £000
Income	27	43	(16)	114	147	(33)
Expenditure	<u>(10)</u>	<u>(18)</u>	<u>8</u>	<u>(80)</u>	<u>(108)</u>	<u>28</u>
Operating Profit/ (Loss)	<u>17</u>	<u>(25)</u>	<u>(8)</u>	<u>34</u>	<u>39</u>	<u>(5)</u>

Income & Expense: Income of £26.4k in the month of November for BBHL included rental income from the Phoenix development only and was £16.7k under budget due to delays in handover of the properties. On a year-to-date basis, income of £113.7k reflects a £33.4k negative variance against budget.

Expenditure in the month of £9.5k is £8.1k lower than budgeted. This was comprised of £3.8k lower than budgeted direct property costs and £4.3k lower than budgeted

overhead costs. On a year-to-date basis, expenditures are £27.9k lower than budgeted due to £10.5k lower direct property costs and £17.4k lower over heads than budgeted.

Overall, BBHL recorded a £16.9k operating profit for the month, which was £8.6k lower than budgeted, while the year to date operating profit of £34.0k is £5.5k lower than budgeted.

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

Optalis Group Consolidated - Profit & Loss						
	P8: Nov-17			Cumulative		
	Actual	Budget	Variance	Actual	Budget	Variance
	£000	£000	£000	£000	£000	£000
Income	3,690	3,727	(37)	29,523	29,757	(234)
Expenditure	(3,690)	(3,726)	36	(29,470)	(29,746)	276
Operating Profit/ (Loss)	<u>0</u>	<u>1</u>	<u>(1)</u>	<u>53</u>	<u>11</u>	<u>42</u>

November 2017 results:

Operating profit for the month was slightly below budget but we are showing a positive year to date position as at the end of November 2017 of £53k.

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 64 homes under construction over 6 sites. To date WHL has passed over for management to Loddon Homes and Berry Brook Homes 83 units. There are approximately 140 potential units in the development pipeline.

SITE:	PROGRESS:
Phoenix Avenue (68 units)	<ul style="list-style-type: none"> • 60 of the 68 units have now been handed over. • The remaining 8 units will be handed over again late on 15th January (3 units) and 22nd January (5 units). • Liquidated and ascertained damages (LAD) of £122k have been taken off recent invoices from Hill in recognition of the delays in delivering the project on time. • To date the net valuation is c.£11m against the contract sum of £11.4m – c. 96%. • The Christmas residents' event in December went well and was well attended by local Berry Brook Homes Phoenix residents. • An official opening event is being planned for around mid-March. •

Fosters (34 units)	<ul style="list-style-type: none"> • Formal handover to WHL/ Loddon Homes will take place on 15th January. • Familiarisation with the building and getting set up to be able to receive residents has been ongoing since just before Christmas and in the early New Year. • To date the net valuation is c.£5.5m against the contract sum of £5.9m – c. 92%.
Grovelands (6 units)	<ul style="list-style-type: none"> • Handover of plots 4-6 took place on 15th December with one tenant moved in before Christmas 2017 who would otherwise have been homeless. • The building of Plots 1 and 2 will start in the New Year once the high voltage cable has been re-routed which is due to take place in January 2018. • To date the net valuation is ££961k against the contract sum of £1.1m – c. 88%.
Reading Road (9 units)	<ul style="list-style-type: none"> • There is a small delay of 1.5 weeks which the contractor is looking to recover, although the completion date of the financial year end to enable the HCA grant to be claimed is not at risk. • To date the net valuation is £679k against the contract sum of £1.1m – c. 63%.
Anson Walk (4 units)	<ul style="list-style-type: none"> • Handover and scheme completion occurred just before Christmas with one homeless tenant moving in just before Christmas 2017. • The latest net valuation figure is £599k against a contract sum of £613k (c. 98%) and the final account position is currently being calculated.
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 £255k against the contract sum of £398k – c. 64%.
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 £386k against the contract sum of £536k – c. 72%.
Norton Road (9 units)	<ul style="list-style-type: none"> • The project is due to start on site imminently, as pre-site preparation work meant a before Christmas start was not cost effective due to a Christmas shut-down period being needed. • Start on site will trigger the ability to claim the HCA grant funding secured for this project.
Finch Road (2 units)	<ul style="list-style-type: none"> • Finch Road is also due to start on site imminently which will trigger the ability to claim the HCA grant funding.

Pipeline Sites:

Tape Lane (11 units for WBCs Housing Services): WBC Housing Services are working towards completing decanting by end January 2018. The project is currently being tendered which is due to be returned in February to enable us to let the contract.

Middlesfields (2 units): Having managed to find a more cost effective build contract sum from the additional tendering exercise undertaken, we await the Employers Agents final tender analysis to be able to seek approval of the contract award from WHL and Holdco. Loddon Homes have provisionally agreed to buy the scheme and agreed a Contract Transfer Price based on the submitted lowest tender results.

Gorrick Square (1 specialist unit for 3 high dependency need young adults): Planning permission has now been achieved. We have also secured HCA grant funding through Loddon Homes of an additional £135k to support this project. We continue to work towards tendering the project through our Small Contractors Framework.

Work to try and progress future pipeline projects is continuing through appraisal work and work on planning applications. These include 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:

In preparation for taking on the shared ownership units at Elizabeth Road and Barrett Crescent, the Loddon Homes Board approved the appointment of Housing Solutions as their partner for selling shared ownership homes. Arrangements are being finalised with Housing Solutions to enable the shared ownership homes due to be complete by April 2018 to be marketed and sold to local people.

Completed Schemes:

One of the bungalow residents has recently given notice, giving rise to the first vacancy at Hillside since the scheme was first opened in 2014. The service charge increase has been advised to residents and this will take effect from January 2018.

A vacancy at the supported housing scheme of 4 rooms at Vauxhall Drive has also arisen and is being actively allocated to in order to fill this vacancy. The service charge increase has been advised to residents and this will take effect from January 2018.

Schemes under construction:

Loddon Homes' work has focussed on the housing management, care and catering arrangements at the new Extra Care scheme at Fosters, Woodley, as this was handed over to Loddon Homes in mid-January 2018.

The first residents should have moved in at the end of the week commencing the 15th January with a number of offers made to the just over 20 residents identified as meeting the extra care criteria for moving to Fosters. Residents moving from Cockayne Court, Finchampstead, are the first residents, along with a couple of new residents nominated from the Housing Register, to move in.

Changes to Directors:

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

Berry Brook Homes Limited (BBHL)

General update:

Work continues to ensure that the new homes taken on at Phoenix, Anson and Grovelands are let as quickly as possible to maximise rental income and, especially in the case of Phoenix Avenue, to start to pull together the community that is now being created.

Completed Schemes:

With Phoenix Avenue now nearly all handed over and phases 1, 2, 3 and 4 and much of the parts of phase 5 now let, we are working to make sure the housing management arrangements are regularised and working effectively. The new Service and Compliance Officer that has joined the staff of the Local Housing Companies recently will be central to us achieving this as we move forward.

The well-attended Christmas event held at Phoenix Avenue for new Berry Brook residents will hopefully have gone some way to helping bring together the community and setting the tone for the relationship between residents and us as their landlord.

The handovers of 3 houses at Grovelands and 4 flats at Anson Walk took place before Christmas and we were able to house two new tenants before Christmas, one at each scheme, who had been accepted as homeless by the Council.

Changes to Directors:

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

Optalis Limited

General:

Our staff and customer engagement programme to inform our Optalis 2020 strategy planning process concluded in the month, with nearly 200 customers and staff, parents and carers taking part.

Staff

Vacancy rates continue to be below those at the beginning of the year. Agency costs have stabilised as well as we continue to manage our organisations resources well. Our supported employment service manager, Donna Morgans, has received the 'highly commended' award in the Workplace Mental Health Awards category at the Thames Valley Business Awards. The award reflects the importance we place on increasing awareness of mental health and pro-actively creating a healthy, productive and transparent culture, in keeping with the core values of Optalis

Quality

As part of our integration programme, we are carrying out an organisation wide quality review which will result in a new, single and unified quality and governance system across Optalis.

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

Contact James Sandford	Service Resources
Telephone No 0118 974 6577	Email James.Sandford@wokingham.gov.uk
Date 15 th January 2018	Version No. 3

This page is intentionally left blank