

TITLE	Shareholder's Report
FOR CONSIDERATION BY	The Executive on 22 February 2018
WARD	None specific
DIRECTOR	Graham Ebers, Director of Corporate Services
LEAD MEMBER	Julian McGhee-Sumner, 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 December 2017;
- 2) the operational update for the period to 31 December 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 October 2017.

Financial Report

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

Operational Update

An operational update is provided in section 2 for each of the companies as at 31st December 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).

P:9 Dec-17	WBC (Holdings) Group Consolidated - Profit & Loss								
	Month			YTD			Full Year		
	Dec-17	Dec-17	Variance	Dec-17	Dec-17	Variance	Mar-18	Mar-18	Variance
	Actual	Budget		Actual	Budget		Forecast	Budget	
£K	£K	£K	£K	£K	£K	£K	£K		
Income	965	199	766	9,700	6,922	2,778	21,120	21,120	0
Expenditure	(952)	(224)	(728)	(10,137)	(6,840)	(3,297)	(20,361)	(20,361)	0
Operating Profit/(Loss)	13	(25)	38	(437)	82	(519)	759	759	0

Total Actual Income for WBC Holdings in December was £965k against Budget of £199k. Total Expenditure was £(952)k against a Budget of £(224)k, closing the month with a net variance of £38k. The root cause of increase in Actuals against Budget in the month was due to WHL booking £817k against Income which was offset against £(803)k expenditure also in WHL.

Overall these Income and Expenditure variances in the month offset against each other. The Year to Date Operating Loss of £(437)k versus £82k Operating Profit in the month caused a variance of £(519)k loss. This is primarily due to timing issues with completion of projects schemes within the Housing Companies. We continue to hold our full year position of £759k, Operating Profit.

Wokingham Housing Limited (WHL)

P:9 Dec-17	Wokingham Housing Limited- Profit & Loss								
	Month			YTD			Full Year		
	Dec-17	Dec-17	Variance	Dec-17	Dec-17	Variance	Mar-18	Mar-18	Variance
	Actual	Budget		Actual	Budget		Forecast	Budget	
£K	£K	£K	£K	£K	£K	£K	£K		
Income	817	199	618	8,771	5,908	2,863	20,477	20,750	(273)
Expenditure	(832)	(224)	(608)	(9,030)	(5,595)	(3,435)	(19,619)	(19,591)	(28)
Operating Profit/(Loss)	(14)	(25)	11	(259)	313	(572)	858	1,159	(301)

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. However, budget figures do not reflect this change, causing high variances in the month.

WHL recorded income of £817k in the month of December, which was above expectations. However, this was offset by expenditure in the month being £803k higher than budgeted.

The year to date operating loss of £259k represents a £572k negative variance compared to the budgeted loss. However, this loss is forecasted to revert to a £858k profit in the year after some of the larger schemes complete.

Loddon Homes Limited (LHL)

Loddon Homes Limited- Profit & Loss									
P:9 Dec-17	Month			YTD			Full Year		
	Dec-17	Dec-17		Dec-17	Dec-17		Mar-18	Mar-18	
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	7	38	(32)	64	95	(31)	163	210	(47)
Expenditure	(13)	(24)	11	(135)	(152)	17	(190)	(222)	32
Operating Profit/(Loss)	(6)	15	(21)	(71)	(57)	(14)	(27)	(13)	(14)

Income & Expense: Income of £7k in the month of December for LHL included rental income from the Hillside and Vauxhall Drive properties, which reflects a £32k negative variance given Fosters was expected to produce rental income in the month, and this project did not reach completion until January. On a year-to-date basis, income of £64k falls short of budget by a similar amount to that in the month.

Expenditures are £11k lower than budget, due to Fosters not reaching completion until January. Expenditure is lower year-to-date by £17k, due in part to lower spending on professional fees and marketing expenses.

The operating loss of £6k in the month reflects a £21k unfavourable variance compared to the budget while the year to date net loss of £71k is £14k higher than the budget. The forecasted operating loss of £27k is largely a result of lower than expected rental income due to developments coming on line later than expected.

Berry Brook Homes Limited (BBHL)

Berry Brook Homes Limited- Profit & Loss									
P:9 Dec-17	Month			YTD			Full Year		
	Dec-17	Dec-17		Dec-17	Dec-17		Mar-18	Mar-18	
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	42	49	(6)	156	196	(40)	280	355	(75)
Expenditure	(11)	(18)	7	(91)	(126)	35	(138)	(182)	44
Operating Profit/(Loss)	31	31	1	65	70	(5)	142	173	(31)

Income & Expense: Income of £42k in the month of December for BBHL included rental income from the Phoenix as well as one unit each at Anson and Grovelands. This was £6k under budget due to delays in handover of properties. On a year-to-date basis, income of £156k is £40k under budget.

Expenditure of £11k was £7k better than budget due to lower than budgeted direct property costs. Year-to-date direct costs of £91k represent a £35k favourable variance compared to budget due to similar reasons as the monthly result.

Overall, BBHL recorded a £142k operating profit for the month, which was £31k lower than budgeted, while the year to date operating profit of £65k fell £5k short of budget. BBHL is forecasted to make an operating profit of £142k in the year, which is before depreciation, amortisation and interest expense.

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

Optalis Group Consolidated- Profit & Loss									
P:9 Dec-17	Month			YTD			Full Year		
	Dec-17	Dec-17		Dec-17	Dec-17		Mar-18	Mar-18	
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	3,660	3,727	(67)	33,183	33,494	(311)	44,364	44,675	(311)
Expenditure	(3,660)	(3,726)	66	(33,130)	(33,479)	349	(44,311)	(44,655)	344
Operating Profit/(Loss)	0	1	(1)	53	15	38	53	20	33

December 2017 results:

Optalis broke even for the month of December 2017 keeping a positive year to date position of £53k. This is mainly 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.

1. Operational Report

WHL Schemes In Progress/Under Development:

Summary:

WHL have delivered 110 new homes to date in 2017/18, with Fosters Extra Care scheme of 34 flats being handed over mid-January. Another 26 units are currently, or about to be, on site over 5 sites, with approximately another 140 potential units being worked on to get in to the development pipeline.

WHL has been successful in being announced as a finalist in the prestigious joint Chartered Institute of Housing (CIH) and Inside Housing Magazine UK Housing Awards 2018. This is in the category of 'development programme of the year (under 12,000)'. The winners will be announced on 2nd May 2018 at an awards dinner, following a presentation on why we believe we should win this category in mid-March.

WHL expects to make a profit in 2017/18.

SITE:	PROGRESS:
Phoenix Avenue (68 units)	<ul style="list-style-type: none">• The last 8 units were handed over on 31st January. This means that all 68 units are now handed over to Berry Brook Homes.• Liquidated and ascertained damages (LAD) are around £122k, but Hill continue to challenge the level of LADs being applied which is being discussed further with our legal advisors and Employers Agent.• To date the net valuation is c.£11.1m against the contract sum of £11.4m – c. 97%.• An official opening is planned for mid-March.
Fosters (34 units)	<ul style="list-style-type: none">• Formal handover to WHL/ Loddon Homes took place on 19th January.• The net valuation remains at c.£5.5m against the contract sum of £5.9m (92%) with the January invoice plus final account work now in train.• An official opening for the scheme is being planned for the Spring.
Grovelands (6 units)	<ul style="list-style-type: none">• The high voltage cable has now been re-routed and the building of the homes on plots 1 and 2 has now recommenced.• The net valuation of works to date of £973k, 89% of the original build contract price, despite two units not yet being substantially progressed.• WHL will be looking to recoup much of the additional costs from the relevant parties implicated in not identifying the electrical cable's existence originally. However, there are additional costs which lay solely with the nature of the previous use of the site, for instance the discovery of six old oil tanks buried on site, so cost overruns are likely to make this an unprofitable project for WHL.
Reading Road (9 units)	<ul style="list-style-type: none">• There is a small delay of 1 week, although the completion date of the financial year end to enable the HCA grant to be claimed is not at risk.

	<ul style="list-style-type: none"> To date the net valuation is £775k against the contract sum of £1.1m – c. 72%.
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 £273k against the contract sum of £398k – c. 69%.
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 £447k against the contract sum of £536k – c. 83%.
Norton Road (9 units)	<ul style="list-style-type: none"> Work started on site week commencing 5th February, triggering the Homes England (previously the HCA) grant claim.
Finch Road (2 units)	<ul style="list-style-type: none"> Francis Construction are due to start on site in February.

Pipeline Sites:

Tape Lane (11 units for WBCs Housing Services): WBC Housing Services have the last couple of existing residents to decant which is due to be completed by end January 2018. Tender returns were received end January 2018 and are now being evaluated by the EA for the project.

Middlesfields (2 units): There are some additional clarifications we are asking of the best placed tenderer following the Employers Agents tender analysis. We are expecting to be in a place to award the contract if we can by the end of February.

Gorrick Square (1 specialist unit for 3 high dependency need young adults): We continue to work towards tendering the project through our Small Contractors Framework. We expect to complete the scheme in 2019.

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:

Loddon Homes is continuing to work with Housing Solutions on arrangements to ensure that Elizabeth Road and Barrett Crescent shared ownership homes are sold quickly.

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

Completed Schemes:

There remains one vacancy at Hillside and one at Vauxhall Drive which we continue to work with Housing Services to fill as quickly as possible to keep the time homes are vacant to a minimum to maximise income.

Fosters Extra Care scheme is already around half full, with occupancy expected to be more than two-thirds before the end of February, which is quicker than expected and programmed, despite the concerns of The Birches scheme and Fosters both opening at the same time.

Schemes under construction:

Elizabeth Road and Barrett Crescent shared ownership schemes may be completed slightly early in late March, which is good for our reputation with Homes England who often have a need for additional grant spend at year end.

Management and support arrangements for 52 Reading Road are ongoing now that the support provider has been tendered and appointed by WBC. A project plan to ensure the smooth opening and running of Reading Road occurs is currently being developed.

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 formal burying of the Phoenix Avenue time-capsule by former Eustace Crescent residents took place at the very end of January, providing a good PR opportunity, with a plaque commemorating the event.

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:

Of the first 68 units handed over at Phoenix Avenue, Wokingham, 57 homes are let, leaving just 3 vacancies of the pre-Christmas units to now let. The latest 8 units having only just been handed over currently still being allocated to by WBC Housing Services.

For our other schemes, at Grovelands, Winnersh, 2 houses of the 3 are let, while at Anson Walk, Shinfield, 2 of the 4 units are let.

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 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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