

TITLE	Shareholder's Report
FOR CONSIDERATION BY	The Executive on 29 th March 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 January 2018;
- 2) the operational update for the period to 31 January 2018.

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 January 2018. 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:10 Jan -18	WBC (Holdings) Group Consolidated - Profit & Loss								
	Month			YTD			Full Year		
	Jan-18	Jan-18	Variance	Jan-18	Jan-18	Variance	Mar-18	Mar-18	Variance
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	2,145	13,755	(11,610)	11,845	20,678	(8,833)	21,120	21,120	0
Expenditure	(959)	(12,902)	11,943	(11,097)	(19,743)	8,646	(20,361)	(20,361)	0
Operating Profit/(Loss)	1,186	853	333	748	935	(187)	759	759	0

Total Actual Income for WBC Holdings in January was £2,145k against Budget of £13,755k. The large variance of £11,610k is due to the new accounting regime for Actuals in Asset Under Construction not being reflected in the Budgets within WHL. Total Expenditure was £(959)k against a Budget of £(12,902)k, closing the month with a net variance of £11,943. This is due to the same reason as above.

The Year to Date Operating Profit of £748k versus £935k Operating Profit in the month caused a variance of £(187)k. 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:10 Jan-18	Wokingham Housing Limited- Profit & Loss								
	Month			YTD			Full Year		
	Jan-18	Jan-18	Variance	Jan-18	Jan-18	Variance	Mar-18	Mar-18	Variance
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	1,996	13,544	(11,548)	10,767	19,453	(8,686)	12,221	20,750	(8,529)
Expenditure	(788)	(12,626)	11,838	(9,817)	(18,222)	8,405	(11,374)	(19,592)	8,218
Operating Profit/(Loss)	1,208	918	290	950	1,231	(281)	847	1,158	(311)

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 monthly variances.

In January 2018, Phoenix and Fosters reached practical completion, representing two of the largest developments expected to finish in the year. As a result, WHL recorded income of £1,996k in the month of January, representing profits from those schemes in addition to continued works on smaller schemes. However, this level of income was £11,548k below budget given the accounting changes explained above. However, this was offset by expenditure in the month being £11,838k lower than budgeted, allowing WHL to achieve a £1,208k operating profit in the month.

The year to date operating profit of £950k represents a £281k negative variance compared to the budgeted loss. Profit for the year is forecasted to be £847k, which reflects a £311k negative variance.

Loddon Homes Limited (LHL)

Loddon Homes Limited- Profit & Loss									
P:10 Jan-18	Month			YTD			Full Year		
	Jan-18	Jan-18		Jan-18	Jan-18		Mar-18	Mar-18	
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	10	38	(28)	74	133	(59)	136	210	(74)
Expenditure	(22)	(23)	1	(155)	(175)	20	(180)	(222)	42
Operating Profit/(Loss)	(12)	15	(27)	(81)	(42)	(39)	(44)	(12)	(32)

Income & Expense: Income of £10k in the month of January 2018 for LHL included rental income from the Hillside and Vauxhall Drive properties, which reflects a £28k negative variance given rental income for Fosters is not expected until February. On a year-to-date basis, income of £74k is £59k lower than budget given Fosters income was expected to be received from December.

Expenditures are £1k lower than budget, due to lower than expected direct property costs given Fosters reached completion in the month. Expenditure is lower year-to-date by £20k, due to lower direct property costs and lower spending on marketing expenses and gross wages after intercompany recharges.

The operating loss of £12k in the month reflects a £27k unfavourable variance compared to budget while the year to date net loss of £81k is £39k lower than budgeted. The forecasted operating loss of £44k 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:10 Jan-18	Month			YTD			Full Year		
	Jan-18	Jan-18		Jan-18	Jan-18		Mar-18	Mar-18	
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	37	51	(14)	193	247	(54)	297	355	(58)
Expenditure	(11)	(18)	7	(98)	(144)	46	(130)	(181)	51
Operating Profit/(Loss)	26	33	(7)	95	103	(8)	167	174	(7)

Income & Expense: Income of £37k in the month of January for BBHL included rental income from the Phoenix as well as one unit each at Anson and Grovelands. This was £14k under budget due to delays in handover of properties. On a year-to-date basis, income of £193k is £54k under budget.

Expenditure of £11k was £7k better than budget due to lower than budgeted direct property costs. Year-to-date direct costs of £98k represent a £46k favourable variance compared to budget due to similar reasons as the monthly result.

Overall, BBHL recorded a £26k operating profit for the month, which was £7k lower than budgeted, while the year to date operating profit reflected a £95k negative variance against budget. BBHL is forecasted to make an operating profit of £167k 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:10 Jan -18	Month			YTD			Full Year		
	Jan-18	Jan-18		Jan-18	Jan-18		Jan-18	Jan-18	
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	3,715	3,723	(8)	36,898	37,217	(319)	44,374	44,675	(301)
Expenditure	(3,705)	(3,722)	17	(36,835)	(37,200)	365	(44,311)	(44,655)	344
Operating Profit/(Loss)	10	1	9	63	17	46	63	20	43

January 2018 results:

Optalis made a £10k profit for January 2018 increasing the positive year to date position to £63k.

1. Operational Report

WHL Schemes In Progress/Under Development:

Summary:

WHL have delivered 110 new homes to date in 2017/18. Another 37 units are currently, or about to be, on site over 5 sites, including 11 units being delivered for WBCs HRA. Approximately another 140 potential units are being worked on to build up the future development pipeline.

Consultancy for other councils around setting up and using Local Housing Companies (LHC) is now starting to feature as an additional income stream for WHL. Current undertaken, or booked work, is expected to generate fees in the region of £2k, excluding VAT, and is estimated to bring in an additional £5-10k per annum.

WHL expects to make a profit in 2017/18 of around £850k and will be able to start to clear the LHCs working capital loan.

SITE:	PROGRESS:
Grovelands (6 units)	<ul style="list-style-type: none">• Work has started again on the delayed plots 1 and 2 with current estimated completion dates of July 2018.• The net valuation of works to date is now £1.008m, 92% of the original build contract price. As previously reported the project will be over budget.
Reading Road (9 units)	<ul style="list-style-type: none">• Work is slightly behind schedule, but is not expected to threaten the completion of the project before the end of March to secure the final HCA grant funding.• The last net valuation was £775k against the contract sum of £1.1m – c. 72% - but no invoice has been received this month so this is misleading around the progress of the project, where the latest certification calculates current spend closer to 85%.
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 £342k against the contract sum of £398k – c. 86%.
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 £501k against the contract sum of £536k – c. 93%.
Norton Road (9 units)	<ul style="list-style-type: none">• As a brownfield site Norton Road is likely to be a challenging site and an unmapped Thames Water drainage pipe is the first unexpected issue requiring additional work.• To date the net valuation is £60k against the contract sum of £1.531m – c. 4%.
Finch Road (2 units)	<ul style="list-style-type: none">• Finch Road start on site is being delayed to April. This is as a result of some minor amendments to the planning permission being made by our Joint Venture partner, Burrwood Developments.

Pipeline Sites:

Tape Lane (11 units for WBCs Housing Services): Tender returns were received end January 2018 and are being evaluated by the EA for the project.

Middlesfields (2 units): The questionnaire sent out to answer some clarifications from the tenders were returned this week and we expect the Employers Agents (EA) final report to be with us this week. This will enable us to award the contract mid-March.

Gorrick Square (1 specialist unit for 3 high dependency need young adults): A Thames Water drainage pipe discovered on site needs to be diverted which is affecting the timescales for getting the tender documents out to bidders. WHL want an idea of the likely cost for the diversion works to be included in the tender.

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.

Loddon Homes Limited (LHL)

LHL continue to work on making sure the housing management, care and catering arrangements at Fosters Extra Care scheme are all working well for the new residents moving in to Fosters. An open afternoon was well attended by Councillors and some Council officers in advance of any formal opening planned for April 2018.

Work is also taking place to ensure that the housing management and care arrangements for 52 Reading Road are all in place for young care leavers due to start moving in from April 2018. An initial meeting with WBCs Housing Services, Social Services and the appointed care provider, P3, has taken place, along with the first Allocations Panel meeting.

Work is also continuing with Housing Solutions on the sale of shared ownership units at Elizabeth Road and Barrett Crescent due to be handed over at the end of March. Independent valuations have now been undertaken. These are higher than our own assessments during the appraisal stage of the development so should outperform our business planning expectations.

The Loddon Homes Board remain concerned by the ongoing share capital issue with Hillside residing in Loddon Homes as an asset, but the original share capital of £1.9m shares still sitting within WHL. With the 2017/18 financial year coming to an end the Loddon Homes Board are keen to see the matter resolved as part of finalising this year's accounts.

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

Changes to Directors:

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

Berry Brook Homes Limited (BBHL)

Berry Brook Homes are currently working on the production of the 2018/19 Business Plan looking at how best to achieve the objective of delivering profits back to WBC in light of the latest Government housing policy announcements that may affect the company.

Letting the final units at Phoenix Avenue, Anson Walk and Grovelands remains the priority for the company. However ensuring that the management arrangements are working well and that WHL are managing the finishing works and snagging effectively is also important.

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 now tracking below the national average reflecting the ongoing proactive work done by our recruitment team. Overall, we have seen a 47% reduction in vacancies since the beginning of the financial year. Staff turnover is showing signs of stabilisation and is now performing better than the national industry average.

A new partnership initiative has been launched between Optalis and Brunel University to support the continued professional development of our qualified social workers and unqualified social care practitioners. Members of the Optalis team are now enrolled on to this programme. Additionally, our brokerage and support teams are working with Occupational therapists and Social work students, all of whom have expressed an interest in joining Optalis.

Quality

Our "Focus Friends" team (a customer led group operating within our day services) have raised money to buy rucksacks which they fill and give to the homeless community across the region at Christmas time. This community initiative will continue throughout the year.

Business development

Two new extracare housing schemes, a joint project between Wokingham Borough Council, Wokingham Housing and Optalis opened in January.

We continue to build strong collaborative links with the NHS including the successful IRIS (Integrated Referral and Information Service) programme with Wexham Park Hospital to enhance early hospital discharge. Optalis have assigned two social workers to the programme and this joint initiative is already making a positive impact for both customers and colleagues.

Optalis Supported Employment Service continues to offer a quality service and has achieved top a 10 position for supported employment (across all Local Authorities in the UK)

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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