

<b>TITLE</b>	<b>Shareholder's Report</b>
<b>FOR CONSIDERATION BY</b>	The Executive on 31 May 2018
<b>WARD</b>	None specific
<b>DIRECTOR</b>	Graham Ebers, Director of Corporate Services
<b>LEAD MEMBER</b>	Julian McGhee-Sumner, Executive Member for Finance, 21 <sup>st</sup> 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 31 March 2018;
- 2) the operational update for the period to 31 March 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 March 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** (comprising WBC (Holdings))

P:12 Mar -18	<b>WBC (Holdings) Group Consolidated - Profit &amp; Loss</b>					
	YTD			Full Year		
	Mar-18	Mar-18		Mar-18	Mar-18	
	Actual	Budget	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K
Income	922	1,104	(182)	922	1,104	(182)
Expenditure	(1,122)	(1,367)	245	(1,122)	(1,367)	245
Operating Profit/(Loss)	(200)	(263)	63	(200)	(263)	63

Monthly figures for just March have not been included due to the year-end adjustments made. Total figures for the year are shown above.

Income for WBC Holdings closed at £972k for FY17/18 against a budget of £1,104k which reflects a negative variance of £(182)k. The variance was caused by lower funding requirements from WHL, BBHL and LHL.

Operating profit for full year FY17/18 closed at £(200)k against a budget of £(263)k. The positive variance of £63k was mainly due to lower spend in legal and professional fees.

## Wokingham Housing Limited (WHL)

P:12 Mar-18	Month			Full Year		
	Mar-18	Mar-18	Variance	Mar-18	Mar-18	Variance
	Actual	Budget		Actual	Budget	
	£K	£K	£K	£K	£K	£K
Income	1,522	1,297	225	12,581	20,750	(8,169)
Expenditure	(1,650)	(1,345)	(305)	(11,786)	(19,592)	7,806
Operating Profit/(Loss)	(128)	(48)	(80)	795	1,158	(363)

**Income & Expense:** As part of the year end process, accruals have been put through in the month of March to reflect the full year position. These have not been reallocated to prior months, resulting in unusual variances in the month. Therefore, the focus of the financial commentary will largely be on the year-end figures. Please note these figures are currently under audit and are subject to change.

Income for FY17/18 reached £12,581k which was £8,169k below budget due to delays in the project pipeline with indicative schemes not coming to fruition. However, operating expenditure also fell to £11,259k, which was £7,806k less than budgeted for the year. Full year operating profit at WHL was £795k, which is £363k short of the full year budget. This is also reflective of not only project pipeline delays but also higher interest costs due to project delays as WHL absorbs these additional costs under the contract transfer price agreements.

In addition to the highlighted profitability for the year, WHL also repaid £1 million of its operational loan through cash flows generated in the year.

## Loddon Homes Limited (LHL)

P:12 Mar-18	Month			Full Year		
	Mar-18	Mar-18	Variance	Mar-18	Mar-18	Variance
	Actual	Budget		Actual	Budget	
	£K	£K	£K	£K	£K	£K
Income	29	38	(9)	121	210	(89)
Expenditure	(39)	(24)	(15)	(218)	(223)	5
Operating Profit/(Loss)	(10)	14	(24)	(97)	(13)	(84)

**Income & Expense:** Income for FY17/18 at LHL reached £121k, which reflects an £89k negative variance. This is largely due to delays in completion of Fosters. Expenditure reached £218k in the year, which was £4k lower than budget and reflects lower costs due to the Fosters delays which were countered against higher than

budgeted repairs and maintenance charges at existing schemes. The operating loss of £45k is £84k under budget for the year, which is primarily due to completion delays as most other expenditure items were either close to or below budget.

During FY17/18, the Fosters development completed and was moved into LHL and income started to be received from February. A few days before year-end, Reading Road, Elizabeth Road and Barrett Crescent also completed, which are not included in the financial results as tenants did not move into them or shared ownership sales had not completed before year-end.

### **Berry Brook Homes Limited (BBHL)**

P:12 Mar-18	Month			Full Year		
	Mar-18	Mar-18	Variance	Mar-18	Mar-18	Variance
	Actual	Budget		Actual	Budget	
	£K	£K	£K	£K	£K	£K
Income	49	54	(5)	279	355	(76)
Expenditure	(16)	(19)	3	(127)	(182)	55
Operating Profit/(Loss)	33	35	(2)	152	173	(21)

**Income & Expense:** Income for FY17/18 at BBHL reached £279k, which reflects a £76k negative variance. This is largely due to delays in completing projects and moving tenants into units. Expenditure reached £127k in the year, which was £55k lower than budget and reflects lower costs due to development delays and lower than budgeted expenditures in most categories. The operating profit of £152k is £21k under budget for the year. However, interest and depreciation charges result in a net loss of £82k for the year.

During FY17/18, the Phoenix, Anson and half of Grovelands developments completed and was moved into BBHL.

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

P:12 Mar-18	Month			Full Year		
	Mar-18	Mar-18	Variance	Mar	Mar-18	Variance
	Actual	Budget		Forecast	Budget	
	£K	£K	£K	£K	£K	£K
Income	3,812	3,723	89	44,422	44,513	(91)
Expenditure	(3,773)	(3,722)	(51)	(44,363)	(44,494)	131
Operating Profit/(Loss)	39	1	38	59	19	40

## March 2018 results:

Optalis made a £39k profit for the month of March and therefore an increased profit YTD of £59k. This is after the netting of both major contracts as per the Shareholder agreement.

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 delivered 123 new homes in 2017/18. To date WHL have delivered 138 homes to its sister companies, with another 26 units currently on site, including 11 units being delivered for WBCs HRA. Sites that will deliver approximately another 370 potential units are being worked on to build up the future development pipeline.

<b>SITE:</b>	<b>PROGRESS:</b>
<b>Grovelands (6 units)</b>	<ul style="list-style-type: none"><li>The last two units currently being built will be water tight this month and we expect the units to be complete by July.</li></ul>
<b>Norton Road (9 units)</b>	<ul style="list-style-type: none"><li>Good progress is being made with piling complete and groundworks started, with net valuations being at around 20% of the contract sum of around £1.5m.</li></ul>

### **Pipeline site with planning permission:**

<b>SITE:</b>	<b>PROGRESS:</b>
Finch Road (2 units)	<ul style="list-style-type: none"><li>A start on site date is still to be agreed with our Joint Venture partner, Burrwood Developments, as a result of a third party being interested in buying all four of their units which would simplify the whole deal. Work is ongoing over agreeing costs with SSE to deal with the electrical cable that crosses over the corner of our units foundations.</li></ul>
Middlefields (2 units)	<ul style="list-style-type: none"><li>Initial site set up meetings have taken place with the contractor Resource Building Services (RBS), with Holdco having signed off WHLs recommendation to appoint RBS, so that we can now enter in to contract with RBS.</li></ul>
Tape Lane (11 units for the HRA)	<ul style="list-style-type: none"><li>Housing Service have been provided with the tender report and a number of clarifications requested and we await their approval to formally appoint the winning tenderer who was LifeBuild.</li><li>Housing Services are still to decant two of the six properties due to be demolished where tenants have been given multiple alternative offers which they have refused.</li></ul>

Gorrick Square (1 units)	<ul style="list-style-type: none"> <li>The water drainage pipe that needs to be moved has now received approval from Thames Water so that it is now possible to tender the build contract with no unknown costs which we would otherwise have to accept as provisional sums.</li> </ul>
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Changes to Directors:

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

**Loddon Homes Limited (LHL)**

Arrangements for managing homes through WBC Housing Services continue to evolve with the new interim Housing Manager looking to ensure Loddon's stock is well managed through the current Council 21<sup>st</sup> Century change programme in Housing Services. A focus on ensuring rent collection is effective and voids are let as quickly as possible are the two key areas Loddon want Housing Services to focus upon.

Work is progressing well around the sale of the four shared ownership homes at Elizabeth Road and Barrett Crescent. One property is reserved and moving to sale, two offers have been given which we expect to progress to reservations, with the final unit having a potential buyer nominee currently being assessed for suitability.

Reading Road, a scheme for young care leavers, currently has 5 of the 9 units let and seems to be working very well. We are looking to let the two studio flats when two of the residents living in the rooms are ready to move to more independent living, and so are planning for a longer void period than we would in general needs housing

Changes to Directors:

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

**Berry Brook Homes Limited (BBHL)**

The Berry Brook Board have been further considering the strategic direction of the company and developing their Business Plan. These discussions will be worked in to the current draft plan with a view to further refining this at an away day in mid-June.

The Berry Brook Board are looking for the arrangements for managing homes through WBC Housing Services to evolve further and expecting Berry Brook's stock is managed effectively. A focus on ensuring rent collection and filling current voids are the two key areas the Board require maximum effort upon.

The Berry Brook Board agreed to implement a rent increase following appropriate notice to residents for the remainder of 2018/19 based on the September 2017 Consumer Price Index (CPI). Thereafter rents will be increase each April.

Managing the defects at Phoenix with the contractor continues to be hard work, with the contractor being recently given a final deadline to meet outstanding snagging and defect works or have them undertaken by ourselves using retention money that would normally be due at the end of the 12 month defect period.

### Changes to Directors:

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

### **Optalis Limited**

#### General:

Planning is underway to deliver our Star Awards (for staff) which will take place in June; a fitting opportunity to celebrate the work that our teams do every day to fulfil the potential of our customers.

Strategically, Optalis 2020 was unanimously approved by our shareholders, giving us the mandate to deliver a successful organisation which will enable us to reach out to more customers, recruit and train more colleagues and positively impact more communities.

#### Staff

The number of people joining us continues to increase and this is further supported by an improvement in retention rates. Our average FTE vacancy rate when compared over the year to March 2018 has reduced by nearly 40%.

Our pipeline of applicants for roles continues to improve, driven by our initial pathway and process analysis work and our subsequent increased focus in the areas with most impact. Our proactive google campaign and increased social media activity are all contributing factors. This will be further enhanced by the introduction of our E-Recruitment applicant tracking system and on line application form will help streamline our recruitment processes.

#### Quality

Our i-auditor tool for compliance measurement is being rolled out across the organisation. Our Quality review programme is ongoing as we continue to drive a culture of continuous improvement.

#### Business development

Our supported employment service has achieved "support with confidence" accreditation for a 5th year in a row. This is a joint initiative between local authority trading standards and adult social care services which serves to reassure members of the public that the service they use will be delivered safely.

Our contract with Reading College, which provides specialist training, coaching for students transitioning from college into work has been extended for its third year due to our 2017 results - a 90% success rate in helping people into employment

Our work to provide services to the two newly built Extra Care housing schemes is going well.

Our Supported Employment Service achieved the 10th highest LA out of 166 Local Authorities because of its outcomes for Learning Disability (supporting 14.4% of people with learning disabilities into work where the UK average is c8%)

### **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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