

TITLE	Shareholder's Report
FOR CONSIDERATION BY	The Executive on 29 November 2018
WARD	None specific
DIRECTOR	Graham Ebers, Director of Corporate Services
LEAD MEMBER	Executive Member for Finance and Corporate Resources - Vacancy

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

Transparency in respect of Council Owned Companies

RECOMMENDATION

The Executive is asked to note:

- 1) the budget monitoring position for the month ending 30th September 2018;
- 2) the operational update for the period to 30th September 2018

EXECUTIVE SUMMARY

This report is to update the Executive on the performance and progress on those subsidiary companies that the Council has a controlling shareholder interest in.

Housing. The Council has established a group of wholly-owned housing subsidiaries in order to provide much needed affordable housing across the Borough whilst generating a financial return for the Council; this return contributes to the Council's aspiration of becoming increasingly independent of central government support.

The housing group has now become well established and last year Wokingham Housing Limited (WHL) built 123 new homes; these were then sold within the group to Loddon Homes Limited (LHL) and Berry Brook Homes Limited (BBHL) generating a profit of just over £600k. Also in 2017/18, WHL were able to pay off £1 million of its operational loan back to the Council.

WHL is working hard on its future development pipeline, planning to deliver a further 360 new homes over the coming years. Projections are for WHL to construct and deliver between 50 and 75 homes every year, with an annual profit target of at least £1 million.

Adult Care Services. Optalis Group (Optalis) was established to be the Council's provider of choice for Adult Care Services. Its key objectives were to provide safe and good quality Adult Social Care Services commissioned by the Council at a reduced cost and to provide a financial return to the Council. To date a reduction of costs amounting to over £1m per annum costs have been realised and following a recent merger with RBWM, the business has expanded from an annual turnover of £11 million to £40 million. This will enable Optalis to grow and create further financial returns through economies of scale and allow the company 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 any of the Council's subsidiary companies since the last report to Executive in September 2018.

Operational Update

An operational update is provided in section 1 for each of the companies as at 30th September August 2018. Any changes to the Directorships of the companies is provided at the end of the relevant company's operational update.

Financial Report

A budget monitoring report is provided in section 2 for each of the companies for September 2018.

BACKGROUND

Housing Group

Operational Report

WHL Schemes In Progress/Under Development:

Summary: WHL delivered 123 new homes in 2017/18, and have now delivered 141 homes in total since 2011. Another 60 homes have planning permission and are either on site or moving towards being on site, with the recent achievement of the Gorse Ride Cockayne Court planning permission for 46 units being granted.

WHL has around 360 units in the identified development pipeline, including the Gorse Ride Cockayne Court units, which would provide a net gain of units of around 150 additional homes, as 240 of these are on the Gorse Ride South regeneration project.

We continue to look to try and create additional units beyond the above pipeline by working with WBC colleagues. As previously reported although the next 2 years look like being slow in terms of completions, a number of schemes will move in to development and we expect the work looking at WBC assets and land will produce additional pipeline units in the medium to longer term (c. 5 to 15 years).

WHL are looking at other opportunities outside of WBC owned assets and land to look to create more opportunities for the companies to develop and own.

Progress on schemes under construction:

Norton Road (9 units)	<ul style="list-style-type: none">• While the units now have their roofs built and are waiting for doors and windows to be fitted in order to be watertight, there is some slippage in the programme as a result of the extreme hot weather over the summer. Once watertight, we will be reassessing the programme to see where we can recapture some of the time lost, but completion will now be February 2019 rather than January.• To date the net valuation is £981k against the contract sum of £1.631m – c. 60%.
Middlefields (2 units)	<ul style="list-style-type: none">• Resource Building Services started on site in early October.• WHL have a licence to start the development while the lease and nomination agreement is being agreed with WBC and Loddon Homes. Once this is completed then Loddon Homes will submit the claim for Homes England grant which was previously secured for this site.• To date the net valuation is £72k against the contract sum of £457k – c.16%
Tape Lane (11 units for the HRA)	<ul style="list-style-type: none">• The contractor has a presence on site, but demolition has been delayed by the last utility disconnections completing and the construction method statement being signed off by highways and planning.• WHL and Simon Price are scheduled to attend the December Parish Council meeting to give an update on the project.

Pipeline site with planning permission:

Finch Road (2 units)	<ul style="list-style-type: none">• SSE have programmed in the last week of October for moving the electrical cable so start on site for WHL will be November. The demolition of the existing properties has taken place so there will be no delay in commencing the build once the cable is moved.• The land transfer between Burrwood Homes and WBC is still ongoing. Once this is completed then the land transfer between WBC and Loddon Home will take place. Loddon Homes cannot claim the Homes England grant until the land transfer to Loddon takes place.
Gorrick Square (1 unit)	<ul style="list-style-type: none">• The tender document has been distributed to the framework contractors and returns have now been received and are being analysed so a tender award can be made.
Gorse Ride/ Cockayne Ct (c. 46 units)	<ul style="list-style-type: none">• The planning application was approved at the October Planning Committee meeting.• Following formal approval of the relevant legal agreements, the planning notice has now been issued, so that WHL are now just waiting on the CIL forms being approved to allow demolition to take place.• The e-procurement process to meet the legal tendering requirements (through OJEU) is being progressed to enable us to be able to let the build contract.

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

Loddon Homes Limited (LHL)

Loddon Homes saw the completion of one of the two Barrett Crescent units recently, so just the final units of the first four Loddon shared ownership properties remains unsold. We expect this unit to complete in the very near future.

Most of the voids at Fosters are now filled with just two of the original 34 units now remaining empty. This has been helped by Adult Social Care agreeing to relax the allocations criteria to get the last few units let.

Changes to Directors:

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

Berry Brook Homes Limited (BBHL)

Berry Brook is monitoring closely WBC Housing Services and how they are managing Berry Brook's stock, especially at Phoenix Avenue where a second residents meeting is due to take place in October. Housing Services have been taking a proactive approach to defects management at Phoenix where the contractor Hill continue to need to be tightly managed. To help put more pressure on Hill, the Employers Agent role has been

changed by WHL and is now being much more thorough in working with Housing Services on defects identification and management.

Berry Brook Homes is working towards purchasing the 22 key worker apartments in Wokingham town centre at Peach Place from WBC Town Regen and ensuring that allocations are prompt and arrangements for management are effective. Units are expected to come in to the company in early January.

Deciding how Berry Brook can best achieve its objectives of providing dividends back to WBC and also deliver housing that is needed in the Borough, is under keen discussion with our sister companies. With the dual issues of a slower than expected development pipeline combined with changes to Government housing policy, Berry Brook's business plans need a complete overhaul and rethink. The company hopes to have a clearer idea of its future strategy and best way of delivering its objectives later in the Autumn.

Changes to Directors:

John Kaiser has been appointed as Chair of the Board to replace Gary Cowan who has now stepped down from the Loddon Homes Board and is now resigning from the Board. Another Councillor Board member will be appointed to the Board by WBC (Holdings) Limited to maintain a Board of seven members.

We thank Gary for his excellent work with the Companies over many years; first as a member of the Wokingham Housing Board and since July 2015 as the Chairman for Loddon Homes. This included guiding the company through registration with the Regulator of Social Housing (RSH) and achieving the accolade of being the first wholly-owned For-Profit Registered Provider ever registered by the RSH.

Berry Brook Homes Limited (BBHL)

A Phoenix Avenue residents meeting took place in early November and the feedback from residents around the management of the defects through Housing Services was generally positive and welcomed as a significant improvement. A new Housing Officer dedicated to managing Berry Brook's and Loddon's stock is due to start in Housing Services at the end of November and this should further improve the experience of tenants at Phoenix Avenue.

Berry Brook continues to work on making sure arrangements for taking on the Peach Place units are in place for January when we expect handovers to start happening.

Changes to Directors:

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

2. Financial Report

WBC (Holdings) Group (comprising WBC (H)L, WHL, LHL and BBHL)

P5: Sep-18	WBC Holdings - Profit & Loss								
	Month			YTD			Full Year		
	Sep-18	Sep-18		Sep-18	Sep-18		Sep-18	Sep-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	68	63	5	534	375	159	1,068	909	159
Expenditure	(75)	(78)	3	(636)	(463)	(173)	(1,272)	(1,100)	(172)
Operating Profit/(Loss)	(7)	(15)	8	(102)	(88)	(14)	(204)	(191)	(13)

There is a contra-variance on income and expenditure reflecting a slower drawdown of loan capital by the subsidiary companies, resulting in a corresponding slower drawdown by WBC (Holdings) Ltd. Assuming schemes complete within budget and planned timescales, the full year forecasted outturns will show a smaller projected loss than originally budgeted for WBC Holdings and its subsidiary companies.

Wokingham Housing Limited (WHL)

P5: Sep-18	Wokingham Housing Limited - Profit & Loss								
	Month			YTD			Full Year		
	Sep-18	Sep-18		Sep-18	Sep-18		Sep-18	Sep-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	257	53	204	1,240	1,376	(136)	5,644	2,522	3,122
Expenditure	(295)	(95)	(200)	(1,412)	(1,511)	99	(5,729)	(2,508)	(3,221)
Operating Profit/(Loss)	(38)	(42)	4	(172)	(135)	(37)	(85)	14	(99)

Income & Expenditure:

Income for September 2018 at WHL was £53k, which reflected a £204k negative variance due to timing differences for payments to contractors. Year-to-date revenues reached £1,376k, which reflected a £136k positive variance due to higher construction revenue from the LHCs than budgeted. Full year income is expected to reach £2,522k, reflecting a £3,122k negative variance due to delays to some schemes now expected to start in FY19/20.

The lower monthly income was countered by lower monthly costs of £95k, which were £200k better than budgeted. Year-to-date costs were £1,511k which reflected a £99k negative variance. Full year costs are expected to reach £2,508k which reflects a £3,221k positive variance, mirroring the position of forecasted income. These variances were due in part by an equivalent amount of higher expenditure as mentioned above countered by lower than budgeted losses incurred from the Grovelands development after completion in July.

The operating loss in August was £41k, which reflected a £4k negative variance and the year-to-date loss was £135k, reflecting a £37k positive variance. On a full year basis, a

forecasted operating profit of £14k is anticipated based on current delivery of developments.

Loddon Homes Limited (LHL)

P6: Sep-18	Loddon Homes Limited- Profit & Loss								
	Month			YTD			Full Year		
	Sep-18	Sep-18		Sep-18	Sep-18		Sep-18	Sep-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	49	339	(290)	710	489	221	1,310	1,369	(59)
Expenditure	(35)	(272)	237	(611)	(431)	(180)	(1,083)	(1,169)	86
Operating Profit/(Loss)	14	67	(53)	99	58	41	227	200	27

Income & Expenditure:

Income for September 2018 at LHL reached £339k, which reflected a £290k positive variance due to completion of shared ownership sales at Elizabeth Road in the month. Year-to-date income of £489k reflects a £221k negative variance, due to sales from shared ownership at Barrett Crescent not occurring in the period. However, one unit at Barrett Crescent completed in October with the remaining one expected to complete in November. On a full year basis, income is expected to reach £1,369k, reflecting a £59k positive variance due to higher first tranche shared ownership sales than budgeted.

Expenditure reached £272k in the month, which was £237k higher than budget due to the cost of shared ownership sales flowing through the accounts in the month. Year-to-date costs of £431k were £180k better than budgeted, which was a result of the costs of sales for the Barrett Crescent shared ownership properties not flowing through the profit and loss statement until sales are completed. On a full year basis, expenditures are forecasted to reach £1,169k, which are £86k higher than budgeted due to higher cost of sales associated with the first tranche sales of shared ownership properties.

The operating profit of £67k in September 2018 was £53k higher than budget due to the variances explained above. The year-to-date operating profit of £58k is £41k below budget, primarily due to shared ownership sales at Barrett Crescent not completing in the period as explained above. The full year operating profit is forecasted to be £200k, which is £27k below budget and is predicated on effectively managing voids at Fosters and completing shared ownership sales at 3 out of 6 units at Norton Road in the financial year.

Berry Brook Homes Limited (BBHL)

P6: Sep-18	Month			YTD			Full Year		
	Sep-18	Sep-18		Sep-18	Sep-18		Sep-18	Sep-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	61	61	0	320	310	10	626	638	(12)
Expenditure	(22)	(16)	(7)	(132)	(108)	(24)	(268)	(285)	17
Operating Profit/(Loss)	39	46	(7)	188	202	(14)	358	353	5

Income & Expenditure:

Income in September 2018 at BBHL reached £61k, which was in line with the budget. Year-to-date income of £310k reflected a £10k negative variance. On a full year basis, income is expected to reach £626k, reflecting a £10k negative variance.

Expenditure reached £16k in the month, which reflected a £7k positive variance against budget. Year-to-date expenditure reached £108k, which was £24k better than budget. Expenditure is expected to reach £268k for the year, reflecting a £17k positive variance against budget. These variances were due to lower direct property costs and tight control of overheads in the month. However, as the properties time out of the 1 year defects period, costs may revert to budget in coming months.

Operating profit in the month of £46k was £7k higher than budget, and the year-to-date operating profit of £201k reflects a £14k positive variance against budget. An operating profit of £358k has been forecasted for the full year, which is £5k better than budget.

Adult Care Services Group

1. Operational Report

Optalis Limited

General:

Our registered, CQC rated, services continue to show great progress through a combination of introducing technology and a constant attention to detail from our staff. Today 70% of our estate is rated “good”; the opposite position to that of 9 months ago. The remaining areas are awaiting inspections.

CQC have asked our Suffolk Lodge service to advise a local provider on how to improve their CQC rating. This follows our recent CQC inspection which resulted in a straight “good” rating (previously requires improvement)

Our profile continues to be raised locally and nationally, with more than 30 positive references in the press (local and national) last month. Overall, Optalis’ press releases in the month hit a circulation of more than 120,000

Optalis has been asked to take part in a national round table event to discuss the Local Authority Trading Companies.

Our latest customer survey results show that 37% more of our customers are “extremely likely” to recommend us than in 2017. This shows that the quality of our services is helping in positively promoting our organisation.

2. Financial Report

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

P:6 Sep-18	Month			YTD			Full Year		
	Sep-18	Sep-18		Sep-18	Sep-18		Sep-18	Sep-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	3,843	3,789	54	22,771	22,479	292	66,766	66,766	0
Expenditure	(3,841)	(3,784)	(57)	(22,751)	(22,440)	(311)	(66,718)	(66,718)	0
Operating Profit/(Loss)	2	5	(3)	20	39	(19)	48	48	0

September 2018 results:

Half year results for Optalis are above expectations and the current forecast is that we will meet our year-end objective as long as there are no contract changes on our two main contracts. Councils’ budget pressures may have an effect on the results.

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

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.

List of Background Papers
None

Contact Kajal Patel	Service Resources
Telephone 07769957900	Email Kajal.Patel@wokingham.gov.uk