

<b>TITLE</b>	<b>Shareholder's Report</b>
<b>FOR CONSIDERATION BY</b>	The Executive on 31 January 2019
<b>WARD</b>	None specific
<b>LEAD OFFICER</b>	Graham Ebers, Deputy Chief Executive
<b>LEAD MEMBER</b>	Anthony Pollock, Executive Member for Finance, HR and Corporate Resources

## **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 30<sup>th</sup> November 2018;
- 2) the operational update for the period to 31<sup>st</sup> December 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 November 2018.

**Operational Update**

An operational update is provided in section 1 for each of the companies as at 31<sup>st</sup> December 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 November 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.

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, with a number of potential Council owned assets being considered for possible housing development. Beyond this the companies explore other potential development opportunities with private sector partners either as stand-alone sites or joint ventures.

**Progress on schemes under construction:**

**Pipeline site with planning permission:**

<b>Gorrick Square (1 unit)</b>	<ul style="list-style-type: none"><li>• The tender has been returned and it is considerably higher than expected. WHL met with the contractors to discuss if the contract sum can be reduced before the Christmas break. WHL are expecting responses from the contractors' mid-January. WHL have put forward suggestions to WBC to deliver the projects ranging from other ways to fund the project build costs to not undertaking the project at all due to viability.</li><li>• WBC have met with the parents to keep them informed of the situation.</li></ul>
<b>Gorse Ride/ Cockayne Ct (c. 46 units)</b>	<ul style="list-style-type: none"><li>• Demolition of Cockayne Court and the bungalows is complete.</li><li>• The e-procurement process to meet OJEU tendering requirements are being progressed to enable us to be able to let the build contract for May 2019 and be on site in the summer.</li></ul>

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

### **Loddon Homes Limited (LHL)**

The shared ownership properties at Norton Road are being marketed, with a view to try and secure off-plan sales to ensure the units are sold promptly on completion.

One original voids at Fosters remains, with work continuing to ensure this is let as soon as possible. The level of voids at Fosters is now in line with other Extra Care schemes owned by other parties. All other schemes owned by Loddon Homes are let.

The Board were recently provided with the first review and report of Housing Services performance and Key Performance Indicator (KPI) accuracy in acting as our managing agent. The audit review looked at key Health and Safety matters and was well received by the Board as an invaluable check around compliance matters and reassuring them as directors of the company.

The Board were also recently provided with a paper on the work occurring around Gorse Ride phases 1 and 2, and as part of this paper agreed to support the Equity Share product that the Council wants to be able to offer homeowners on the Gorse Ride South estate.

#### **Changes to Directors:**

There have been two changes to Loddon Homes' company directors since the last report. These are that Gary Cowan has resigned from the Board of directors and as the previous Chair of the Board. John Kaiser has been appointed as the new Chair of the Board. Lindsay Ferris has been appointed as a new non-executive director on the Board to replace Gary Cowan.

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

Work continues to revolve around ensuring the stock is effectively managed, especially around Phoenix Avenue defects. This is an area that Housing Services are undertaking well presently in close liaison with Ibis, the employer's agent now working on the job.

The new Housing Officer, solely dedicated to the LHCs stock, is now picking up the reigns of being a more obvious housing management presence around the stock.

The Board were recently provided with the first review and report of Housing Services performance and Key Performance Indicator (KPI) accuracy in acting as our managing agent. The audit review looked at key Health and Safety matters and was well received by the Board as an invaluable check around compliance matters and reassuring them as directors of the company.

#### **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)

P8: Nov-18	WBC Holdings - Profit & Loss								
	Month			YTD			Full Year		
	Nov-18	Nov-18		Nov-18	Nov-18		Nov-18	Nov-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	62	64	(1)	498	501	(3)	1,068	1,071	(3)
Expenditure	(76)	(78)	3	(607)	(619)	12	(1,271)	(1,260)	(11)
Operating Profit/(Loss)	(13)	(14)	1	(109)	(118)	9	(203)	(189)	(14)

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)

P8: Nov-18	Wokingham Housing Limited - Profit & Loss								
	Month			YTD			Full Year		
	Nov-18	Nov-18		Nov-18	Nov-18		Nov-18	Nov-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	445	331	114	1,934	1,837	97	5,644	2,522	3,122
Expenditure	(472)	(350)	(122)	(2,160)	(1,928)	(232)	(5,729)	(2,508)	(3,221)
Operating Profit/(Loss)	(27)	(19)	(8)	(226)	(91)	(135)	(85)	14	(99)

#### Income & Expenditure:

Income for November 2018 at WHL was £331k, which reflected a £114k negative variance due to timing differences for payments to contractors. Year-to-date revenues reached £1,837k, which reflected a £97k negative variance due to lower 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 £350k, which were £122k better than budgeted. Year-to-date costs were £1,928k which reflected a £232k positive variance, which reflects the lower construction revenue explained above. Full year costs are expected to reach £2,508k which reflects a £3,221k positive variance, also 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 November 2018 was £19k, which reflected a £8k positive variance and the year-to-date loss was £92k, reflecting a £135k positive variance. On a full year basis, a forecasted operating profit of £14k is anticipated based on current delivery of developments, excluding interest charges for the year.

### **Loddon Homes Limited (LHL)**

Loddon Homes Limited- Profit & Loss									
P8: Nov-18	Month			YTD			Full Year		
	Nov-18	Nov-18		Nov-18	Nov-18		Nov-18	Nov-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	39	191	(152)	788	867	(79)	1,310	1,369	(59)
Expenditure	(33)	(157)	124	(678)	(745)	67	(1,083)	(1,165)	82
Operating Profit/(Loss)	6	34	(28)	110	122	(12)	227	204	23

#### Income & Expenditure:

Income for November 2018 at LHL reached £191k, which reflected a £152k positive variance due to completion of the final shared ownership sales at Barrett Crescent in the month. Year-to-date income of £867k reflects a £79k positive variance, due to higher income from shared ownership sales than budgeted, which is the result of higher market valuation of properties as well as higher first tranche sales. On a full year basis, income is expected to reach £1,369k, reflecting a £59k positive variance.

Expenditure reached £157k in the month, which was £124k higher than budget due to the cost of the Barrett Crescent shared ownership sale flowing through the accounts in the month. Year-to-date costs of £745k reflected a £67k negative variance against budget, due to higher first tranche sales resulting in higher cost of sales attributed to the property. On a full year basis, expenditures are forecasted to reach £1,165k, which are £82k higher than budgeted due to higher cost of sales associated with the first tranche sales of shared ownership properties.

The operating profit of £34k in November 2018 was £28k higher than budget due to the variances explained above. The year-to-date operating profit of £122k is £12k above budget, due to shared ownership variances explained above. The full year operating profit is forecasted to be £204k (excluding interest and depreciation), which is £23k 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)**

P8: Nov-18	Month			YTD			Full Year		
	Nov-18	Nov-18		Nov-18	Nov-18		Nov-18	Nov-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	49	49	0	417	407	10	637	626	11
Expenditure	(22)	(15)	(7)	(177)	(141)	(36)	(285)	(268)	(17)
Operating Profit/(Loss)	27	34	(7)	240	266	(26)	352	358	(6)

### Income & Expenditure:

Income in November 2018 at BBHL reached £49k, which was in line with the budget. Year-to-date income of £407k reflected a £10k negative variance, which is the result of voids earlier in the year. On a full year basis, income is expected to reach £626k, reflecting a £12k negative variance.

Expenditure reached £15k in the month, which reflected a £7k positive variance against budget. Year-to-date expenditure reached £141k, which was £35k 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. 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 £33k was £7k higher than budget, and the year-to-date operating profit of £266k reflects a £25k 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:

A CQC inspection took place in December following the two services that were inspected in Maidenhead last month. This inspection looked at our short term Reablement service, previously rated as requires improvement in December 2017. CQC have now confirmed that this service has been upgraded in all areas and now commands a “good” rating. The tables below shows the progress Optalis has made over the last 12 months which has seen the organisation move from 60% of its estate requiring improvement a year ago, to 90% rated “good” now. This is an excellent result and is in line with the targets we have laid out in our strategy.

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.

Our customer satisfaction outcomes are currently at 87% which is ahead of our strategic targets, and those of our competitors.

Our 2018 staff survey was completed in the month. We have introduced mindful-employer indicators and a new engagement framework to check consistency of understanding of our strategy, environment, values, recognition and development across the organisation.

There are no changes to directors to report.

## 2. Financial Report

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

P:8 Nov-18	Month			YTD			Full Year		
	Nov-18	Nov-18		Nov-18	Nov-18		Nov-18	Nov-18	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	3,771	3,825	(54)	30,408	30,152	256	66,766	45,916	20,850
Expenditure	(3,767)	(3,822)	55	(30,382)	(30,105)	(277)	(66,718)	(45,868)	(20,850)
Operating Profit/(Loss)	4	3	1	26	47	(21)	48	48	0

### November 2018 results:

Optalis YTD results up to Nov18 are ahead of budget and very close to the anticipated year-end outturn. Large variance showing on Full Year for both income and expenditure due to forecast Services being delayed.

### **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
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<b>Other Financial Information</b>
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.

<b>Stakeholder Considerations and Consultation</b>
<i>Not applicable – information report only</i>

<b>Resourcing and Timeline for Next Steps</b>
<i>Not applicable – information report only</i>

<b>Timeline for Review and Evaluation</b>
<i>Not applicable – information report only</i>

<b>List of Background Papers</b>
None

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