

TITLE	Shareholders' Report
FOR CONSIDERATION BY	The Executive on Thursday, 28 March 2019
WARD	None Specific;
DIRECTOR	Director of Corporate Services - Graham Ebers
LEAD MEMBER	Executive Member for Finance, HR and Corporate Resources - Anthony Pollock

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

Transparency in respect of Council Owned Companies

RECOMMENDATION

The Executive is asked to:

- 1) approve that Optalis Holdings Limited ('OHL') submits regular reports on the operational, financial and strategic performance of the companies in the Optalis group to WBC (Holdings) Limited and that a Wokingham appointed Director of OHL and the Managing Director of Optalis Limited attends the shareholder meetings of WBC (Holdings) Limited;
- 2) approve that the Group Operating Protocol ('GOP') between Wokingham Housing Limited, Loddon Homes Limited and Berrybrook Homes Limited and the Council shall be amended so that the Assistant Director of Housing and Place is recognised by the companies, WBC (Holdings) Limited and the Council as the officer with authority to agree and manage the financial and operational requirements in service contracts between the Council and the housing companies;
- 3) approve that the Assistant Director of Housing and Place shall attend the shareholder meetings of WBC (Holdings) Limited to discharge his overall responsibility to Housing;
- 4) approve that the modifications to the GOP, form and frequency of the reports and attendance by OHL and the AD shall be determined by the Board of WBC (Holdings) Limited;
- 5) note the budget monitoring position for the month ending 31st January 2019;
- 6) note the operational update for the period to 31 January 2019.

EXECUTIVE SUMMARY

This report is to request that the Executive approves changes to the governance arrangements around decision making and transparency and information exchange between the Council and the Council's wholly owned Councils.

Housing. The Council has established a group of wholly-owned housing subsidiaries in order to provide much both private and affordable housing across the Borough. The

Council is currently recruiting a new Assistant Director of Housing and Place (AD) to ensure that the Council's strategy for housing is formulated and then delivered and receives best value from suppliers whether it is the companies or a third party developer.

The Council as equity shareholder of the companies maintains its strategic oversight through the board of WBC (Holdings) Limited. The Group Operating Protocol (GOP) governs the decision making between the Council and the various companies.

The changes ensure that the AD is properly consulted or commissioned in all decisions on housing delivery that involves the companies. Attendance by the AD at the shareholding board will ensure that Council commissioner's view will be heard by those tasked to ensure delivery by the housing companies.

Adult Care Services. Optalis Limited (Optalis) is the operational delivery company established to be the Council's provider of choice for Adult Care Services. Shareholder oversight of Optalis Limited operates by the board of Optalis Holdings Limited (OHL) which is jointly owned with RBWM and the Executive has appointed three members to OHL as its directors.

The requested changes will improve Council shareholder oversight as the Chairman of OHL and Optalis Limited will be required to report to and meet the Board of WBC (Holdings) Limited

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 February 2019.

Operational Update

An operational update is provided in section 1 for each of the companies as at 31st January 2019. 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 January 2019.

BACKGROUND

Governance

The Council is the sole shareholder of all the companies in the housing group and joint shareholder of the companies in the Adult Social Care group. Each company operates through its board of directors who are tasked to make a success and act in the best interest of the company for the benefit of the shareholders and by association, the residents of the Borough.

As the Council and the companies have become more mature, the parties have realised that the wholly owned company concept of service deliver doesn't entirely fit within the traditional governance arrangements of the public or private sector but does need to draw on the benefits of both.

The Council realises that it is important that how services are delivered through the companies is just as important as what services are delivered. The Council appreciates that residents expect that the public sector concepts of consultation, transparency and open decision-making must apply irrespective who actually delivers the services.

As such, the adopted governance arrangements are not simply reliant on statute, the provisions of the company's articles or lengthy contractual documents. Common sense and experience has shown that good governance arises through arrangements that actually work in that it is simple, transparent, and obvious to all the parties and that decision making follows agreed processes and procedures. Likewise, strategic oversight and accountability must be seen as being as important as the actual delivery of services.

Two fundamentals of the group governance arrangements are the (i) Group Operating Protocol and (ii) the oversight function of WBC (Holdings) Limited

Group Operating Protocol (GOP)

The GOP was agreed between the Companies and the Council in April 2015 with the aim that a simple document provides clarity on the methodology of decision making, transparency, consultation, and identifying whom within the organisations has a particular duty and function. The Protocol is a single point of information and clarity between the parties and provides a simple guide as how decisions are made.

WBC (Holdings) Limited

The Board of WBC (Holdings) Limited consists of members of the Council who are tasked by the Council to exercise the shareholder strategic oversight over the housing companies. The Board meets on a monthly basis and receives reports on the financial and operational performance of the housing companies. The meeting includes relevant officers and Lead members of the Council. The main purpose of the meeting is to formulate and agree the strategic aims of the housing companies and then ensure that the companies deliver to these targets.

Housing Group

The Council is currently recruiting a new Assistant Director of Housing and Place (AD). This position is a fundamental to the Council in delivery of private and affordable housing in the Borough.

The AD's housing role is not only to develop the strategic framework around when and where housing is delivered through the Local Plan process, but also to act as the commissioner for the delivery of Council-led schemes.

It is proposed therefore that the GOP is altered to ensure that the AD is fully engaged and consulted on any decision that impacts on housing delivery. This includes decisions on scheme selection and funding, site selection, grant applications and any arrangements between the Council or companies and third parties. In addition to the GOP, commissioning of services by the Council from the housing companies shall be under a contract of services with clear obligations and deliverables by both the Council and the housing companies.

Further, to ensure that the AD's view is fully heard by the shareholder, that all reports to the Board of WBC (Holdings) Limited are reviewed by the AD and the AD has an opportunity to address the Board.

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:

SITE:	PROGRESS:
Norton Road (9 units)	<ul style="list-style-type: none"> The programme is now due to finish in March 2019 instead of February. This is due to delays around getting the water connection in place with South East Water. To date the net valuation is £1,431k against the contract sum of £1.631m – c. 87%
Middlefields (2 units)	<ul style="list-style-type: none"> The project is close to being water tight, which will help delivery which is expected to be complete by June 2019 and is on target. To date the net valuation is £215k against the contract sum of £457k – c. 47%

Tape Lane (11 units for the HRA)	<ul style="list-style-type: none"> • Solid progress is being made, although the programme is behind schedule due to delays caused by the utility disconnections, following lengthier decanting of existing residents than expected. Progress is being monitored and an Extension of Time claim is expected to be submitted by the contractor shortly. • To date the net valuation is £476k against the contract sum of £2,121k – c. 22%
Finch Road (2 Units)	<ul style="list-style-type: none"> • Progress is solid with the scheme on target. The land transfer between Burrwood Homes and WBC is still ongoing and needs to be executed for the land transfer to then take place between WBC and Loddon Homes. The delay around this is down to Land Registry, but is not delaying the build programme. The real impact of the land transfer is the ability of Loddon Homes to be able to claim Homes England start on site grant money until this is resolved. • To date the net valuation is £181k against a contract sum of £477k – c. 38%.

Pipeline site with planning permission:

Gorrick Square (1 unit)	<ul style="list-style-type: none"> • 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. • WBC have met with the parents to keep them informed of the situation.
Gorse Ride/ Cockayne Ct (c. 46 units)	<ul style="list-style-type: none"> • Demolition of Cockayne Court and the bungalows has taken place and the tender has been returned and is being assessed for the formal award of the contract to enable a start on site in May/ June 2019 as planned.

There have been no changes to WHL company directors since the last report, although see commentary around Berry Brook Homes' directors which will impact on WHLs directors going forward.

Loddon Homes Limited (LHL)

The off-plan sales strategy for the six shared ownership units at Norton Road has paid off with three units being reserved and deposits paid.

All the original voids at Fosters have now been let, although re-lets have now started to occur with two vacancies to fill. All other Loddon Homes properties are let.

Work on updating the five year business plan financials for 2019/20 were presented as a draft to the Loddon Homes Board at its March meeting. This shows the company is profitable from 2019/20 onwards, based on a conservative approach to what schemes will be completed and purchased by Loddon Homes. Due mainly to shared ownership sales, the company is also expecting to generate cash reserves over the five year plan period and we expect to be able to pay WBC (Holdings) Limited dividend payments during this period.

Changes to Directors:

There have been further changes to the Loddon Homes' company directors since the last report due to John Kaiser having decided to resign as the Chair and a non-executive director (NED) of the Board. The Holding Company have proposed UllaKarin Clark is made a NED of Loddon Homes, with a view to shadowing the Vice-Chair at the next meeting of the Board, before taking on the role of Chair going forward.

Berry Brook Homes Limited (BBHL)

The management of existing homes continues to improve through WBCs dedicated Housing Officer beginning to provide a consistent point of contact for residents. Notably Phoenix Avenue came out of defects at the end of January, but there are still a number of outstanding matters to deal with. This will include an assessment of how much retention will be paid back to Hill for defect work that they failed to undertake.

We are progressing work around the Peach Place units that are due to be handed over. In advance of the units becoming available, we are marketing the units and building up a list of applicants interested in renting one of the key worker units. We are also working on calculating the likely service charges for the residential parts of the scheme.

Work on updating the five year business plan financials for 2019/20 are complete and in consequence of what the plan is telling us, we are proposing some changes to the Local Housing Companies' structures where the Board of Berry Brook Homes and WHL are combined and deal with both companies' business at a single meeting, split in two.

Changes to Directors:

It is proposed that the two independent NED board members join WHL and Loddon Homes – one going to each sister company Board. This will effectively fill an existing vacancy on the WHL Board and replace one of the Loddon Homes NEDs who is stepping down this summer. Alistair Auty will Chair both companies, with David Chopping stepping down from the Local Housing Company (LHC) Boards after being a great support and champion of the LHCs since WHL first started in 2011.

2. Financial Report

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

WBC Holdings

P10: Jan-19	WBC Holdings - Profit & Loss								
	Month			YTD			Full Year		
	Jan-19	Jan-19		Jan-19	Jan-19		Jan-19	Jan-19	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	62	64	(2)	623	630	(7)	1,068	1,075	(7)
Expenditure	(76)	(81)	5	(759.00)	(787.68)	29	(1,271)	(1,252)	(19)
Operating Profit/(Loss)	(14)	(17)	3	(136)	(158)	22	(203)	(177)	(26)

The YTD Actual Operating Expenditure negative variance of (£22k) includes estimated accruals which will be firmed during this QTR.

Wokingham Housing Limited (WHL)

P10: Jan-19	Wokingham Housing Limited - Profit & Loss								
	Month			YTD			Full Year		
	Jan-19	Jan-19		Jan-19	Jan-19		Jan-19	Jan-19	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	1,108	365	(743)	3,442	2,328	(1,114)	5,644	3,239	(2,405)
Expenditure	(854)	(411)	443	(3,442)	(2,496)	946	(5,729)	(3,201)	2,528
Operating Profit/(Loss)	254	(46)	(300)	0	(168)	(168)	(85)	38	123

Income for January 2019 at WHL was £366k, which reflected a £743k negative variance due to Norton Road not expected to complete until later in the fiscal year (March). Year-to-date revenues reached £2,328k, which reflected a £1,114k negative variance due to lower construction revenue from the LHCs than budgeted as well as the delayed receipt of income for Norton Road. Full year income is expected to reach £3,239k, reflecting a £2,405k 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 £412k, which were £443k better than budgeted. Year-to-date costs were £2,496k which reflected a £946k positive variance, which reflects the lower construction revenue and delays at Norton Road as explained above. Full year costs are expected to reach £3,081k which reflects a £2,648k positive variance, also mirroring the position of forecasted income.

The operating loss in January 2019 was £46k, which reflected a £300k negative variance against, and the year-to-date loss was £168k, reflecting a £168k negative variance. On a full year basis, a forecasted operating profit of £38k is anticipated based on current delivery of developments, excluding interest charges for the year.

Loddon Homes Limited (LHL)

Loddon Homes Limited- Profit & Loss									
P10: Jan -19	Month			YTD			Full Year		
	Jan-19	Jan-19		Jan-19	Jan-19		Jan-19	Jan-19	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	45	35	(10)	881	949	68	1,310	1,030	(280)
Expenditure	(34)	(28)	7	(747)	(812)	(65)	(1,083)	(898)	184
Operating Profit/(Loss)	11	7	(3)	134	137	3	227	132	(96)

Income & Expenditure:

Income for January 2019 at LHL reached £45k, which reflected a £10k negative variance. Half of this was due to voids in the month and half was due to the delays at Norton Road. Year-to-date income of £950k reflects a £68k positive variance, due to higher income from shared ownership sales than budgeted as explained in previous months. On a full year basis, income is expected to reach £1,030k, reflecting a £280k negative variance, which is the result of shared ownership sales at Norton Road completing next fiscal year.

Expenditure reached £28k in the month, which was £7k better than budget due to lower property costs and overheads. Year-to-date costs of £812k reflected a £65k 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 £898k, which are £184k lower than budgeted due to shared ownership sales at Norton Road completing next fiscal year.

The operating profit of £7k in January 2019 reflected a £3k negative variance against budget due to the variances explained above. The year-to-date operating profit of £138k is £3k above budget, due to shared ownership variances explained above. The full year operating profit is forecasted to be £132k (excluding interest and depreciation), which is £96k below budget.

Berry Brook Homes Limited (BBHL)

P10: Jan-19	Month			YTD			Full Year		
	Jan-19	Jan-19		Jan-19	Jan-19		Jan-19	Jan-19	
	Budget	Actual	Variance	Budget	Actual	Variance	Forecast	Budget	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	49	48	(0)	527	516	(11)	637	675	37
Expenditure	(22)	(21)	2	(221)	(184)	37	(285)	(270)	14
Operating Profit/(Loss)	27	28	1	306	332	26	353	404	52

Income and Expenditure:

Income in January 2019 at BBHL reached £48k, which was roughly in line with budget. Year-to-date income of £516k reflected a £11k negative variance, which is the result of voids earlier in the year. On a full year basis, income is expected to reach £675k, reflecting a £37k positive variance.

Expenditure reached £22k in the month, which reflected a £2k positive variance against budget. Year-to-date expenditure reached £184k, which was £37k better than budget. Expenditure is expected to reach £270k for the year, reflecting a £14k positive variance against budget. These variances were due to lower direct property costs and tight control of overheads.

Operating profit in the month of £27k was £1k higher than budget, and the year-to-date operating profit of £332k reflects a £26k positive variance against budget. An operating profit of £404k has been forecasted for the full year, which is £52k better than budget.

Adult Care Services Group

Prior to the 3rd April 2017, Optalis was a company wholly owned by Wokingham Borough Council. Governance and oversight over the company operated in the same manner as that for the housing company – WBC (Holdings) Limited provided oversight by the Council.

Since 3rd April 2017, the Council's shareholder governance has operated in part by the Board of Optalis Holdings Limited (OHL). OHL is a company owned by the Council and the Royal Borough of Windsor & Maidenhead in 55/45 shareholding proportions. The Board of OHL consists of 3 councillors appointed by both Councils. The Board consists of 6 councillors with the chairperson rotating between the Council's appointments every 2 years.

Although this arrangement is considered to be satisfactory, the Council believes that the prior experience and knowledge gained within WBC (Holdings) Limited could be better utilised to provide an oversight function on behalf of the Council. In addition, such oversight would be truly independent of the Adult Social Care companies, where WBC (Holdings) Limited can ensure that all decisions are made mindful of benefit to the Council and that the companies deliver to the operational and financial targets for the Council under the contract for services.

It is proposed that the Council as majority shareholder of Optalis, instructs OHL to provide WBC (Holdings) Limited with the relevant reports and information required for WBC (Holdings) Limited to discharge its shareholder oversight function. Further, at request of WBC (Holdings) Limited, that a Council appointed Director of OHL should attend the Board meeting of WBC (Holdings) Limited together with the Managing Director of Optalis Limited.

1. Operational Report

Optalis Limited

General:

Optalis continues to perform well in the challenging environment of Adult social care. Financially we have again reported a surplus and we remain bullish in terms of our forecasted out turn.

We are currently running 12 projects across the business ranging from enhanced GD-PR and quality frameworks, to our InPhase information platform and the roll out of our successful technology based auditor tool for services. Of these, ten are rated as green, highlighting good progress across the organisation.

Our teams, again, delivered a “good” CQC rating following an inspection of our homecare service further underpinning our focus on quality. Workshops are now being planned to look at achieving “outstanding” ratings. We have over the last 12 months moved from a position of 60% requires improvement to 90% good. This is an excellent result and indicative of quality driven organisation.

Our HR team have been actively engaged with teams to co-produce the delivery plan arising from our staff survey. Additionally we are starting to benefit from the apprenticeship levy and developing our behaviours framework as a cornerstone of our values based approach. Our staff retention rates are tracking below 13%, which compares with an industry standard of 29%.

From a growth perspective our pro-active PR and positioning has resulted in enquiries from five local authorities who have heard and seen the success of the Optalis model. As a result of our successes in quality delivery, we have had one local authority who has asked to carry out a quality audit on their behalf for providers who have delivered short of CQC expectations.

Our core website traffic has improved by 42% over the last three months, and we appeared in national and local press every day in January helping recruitment and profile-raising activity.

We are actively discussing new business opportunities with each local authority in line with our strategy.

Customer forums, to support co-production have taken place, and we have introduced “The Person Centred Hour” to staff training which highlights from a customer’s own perspective the little details that can help ensure that the care provided is personalised and meets that person’s needs.

There are no changes to directors to report.

2. Financial Report

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

P:10 Jan19	Month			YTD			Full Year		
	Jan-19	Jan-19		Jan-19	Jan-19		Jan-19	Jan-19	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	3,186	3,816	(630)	37,195	37,612	(417)	66,766	45,916	20,850
Expenditure	(3,182)	(3,808)	626	(37,158)	(37,556)	398	(66,718)	(45,845)	(20,873)
Operating Profit/(Loss)	4	8	(4)	37	56	(19)	48	71	(23)

January 2019 results:

Optalis YTD results up to Jan 19 are ahead of budget and expected to increase to a full year out-turn of £71k profit.

Authority

As the recommendation will require further work by officers and the Board of WBC (Holdings) Limited, Executive is requested to give the Board of WBC (Holdings) Limited authority to determine the detail on the arrangements for the recommendations in consultation with the relevant parties. WBC (Holdings) Limited will ensure that the relevant parties are all consulted and their views considered as part of the revised arrangements.

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.

Stakeholder Considerations and Consultation

Not applicable – information report only

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

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

List of Background Papers
None

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