

<b>TITLE</b>	<b>Council Owned Companies Business</b>
<b>FOR CONSIDERATION BY</b>	The Executive on 26 May 2015
<b>WARD</b>	None specific
<b>DIRECTOR</b>	Graham Ebers, Director of Finance and Resources
<b>LEAD MEMBER</b>	Keith Baker, Leader of The Council

## **OUTCOME / BENEFITS TO THE COMMUNITY**

Transparency in respect of Council Owned Companies

## **RECOMMENDATION**

The Executive is asked to note:

- 1) the strategy and objectives of the Council's subsidiary companies;
- 2) the budget monitoring position for the ten months to February 2015;
- 3) the operational update for the ten months to February 2015.

## **SUMMARY OF REPORT**

### **Changes in Directorship in WBC (Holdings) Limited**

There have been no changes to WBC (Holdings) Ltd directorships since the last quarterly report to Executive for the period to 31 December 2014 was approved by Executive on 29 January 2015.

### **Strategy and Objectives of the Council's Subsidiary Companies**

A brief summary of each of the individual company's strategy and objectives is set out below. This includes WBC (Holdings) Ltd, which was set up in 2013/14, and which is a holding company for the Council's interests in its main subsidiaries, Wokingham Housing Ltd (WHL), and Optalis.

### **Operational Update**

An operational update is provided for each of the companies up to February 2015, which emphasises that certain group companies, mainly Wokingham Housing Ltd, are currently in the cash flow intensive capital development phase, to be followed by income generation arising from the developments.

### **Budget Monitoring Report**

A budget monitoring report is provided for each of the companies up to February 2015, which confirms that overall the group is in a loss making position as budgeted. This reflects the significant level of capital works being undertaken by WHL, which will be followed in later years by income flows from the investments.

## **1. Strategy and Objectives**

### **1.1 WBC (Holdings) Ltd**

WBC (Holdings) Ltd was set up in 2013/14 and is a holding company whose main objective is to ensure that the operation of the subsidiaries is conducted in an efficient manner, and coordinated as a group, especially with regard to taxation. This is achieved by the ability of the holding company to claim group tax relief, so that for example losses from one company are offset against losses from another when corporation tax is calculated.

The strategy is to ensure that all loans, grants or shareholdings from the Council to the subsidiary companies are channelled through the holding company. In addition, the Council's former shareholdings in WHL and Optalis have now been sold to WBC (Holdings) Ltd at face value of £1.95m.

### **1.2 Optalis**

The company's main objectives are :

To deliver a range of high quality adult care services to Wokingham residents  
To achieve income by providing services to other councils, organisations and individuals.

In order to achieve these main objectives, the company has the following priorities and strategies :

To fulfil the current Wokingham adult care contract with Wokingham Council with maximum efficiency and quality.

To support the Council in its challenge to achieve efficiency savings in the adult social care system as a whole.

To expand the capacity of the company to deliver high quality care services to private paying residents of Wokingham borough and beyond.

To develop opportunities to work with other Councils, through consultancy services or through Joint Venture arrangements

The delivery of the above is dependent on the following strategies :

Development of a competent and fulfilled workforce

Ensuring the commitment to high quality care and excellent customer service are embedded in all staff members everyday working practices

The involvement of our customers and their families in service planning to improve their care experience

Adding value to our partnerships through collaborative income generating relationships

The development of our skills and experience to enable future sustainable growth

### **1.3 Wokingham Housing Ltd (WHL)**

WHL's main objectives are :

To build a sustainable and profitable long-term business based on developing high

quality housing schemes on council owned land

To seek other opportunities for growth.

The main strategy to achieve these objectives is :

To integrate completed schemes into housing management

To develop two large projects at Eustace Crescent and former Fosters site

To take a range of smaller sites through the planning process and on to development.

The establishment of a 100% owned subsidiary, Loddon Homes Ltd, in 2013/14, to achieve Registered Provider (RP) status enabling Government grants to be obtained thereby supporting development projects.

## **2. Operational Update to February 2015**

### **2.1 WBC (Holdings) Ltd**

WBC (Holdings) Ltd does not undertake any operations as it is a holding company.

### **2.2 Optalis**

Recruitment of front line care staff remains the biggest ongoing operational challenge, particularly for Home Care workers. Optalis has invested full time resource into this area and is continually seeking innovative ways to attract staff to Optalis.

A high turnover of staff was experienced during 2014-15, on average 32% across the company. Efforts have been made both in the areas of recruitment and retention and for the last quarter (Jan-March 2015) staff turnover stood at 17%, which is significantly below the average for care providers in the borough of 29% and therefore a positive development for Optalis.

2015/16 will be a year of consolidation for Optalis, with permanent appointments to the Managing Director and Chairman roles to be made, and investments in staff around training, internal communications, and improved staff engagement a priority.

The focus remains the successful delivery of the core care contract with the Council, with some modest growth plans to offset inflationary pressures on the cost base.

Optalis broadly performs well on the Core Contract for care services. The homecare and reablement services have delivered volumes of activity below the levels required by the contract for reasons of both capacity (recruitment) and also low levels of referrals into services. This is the subject of regular reporting and joint working with the commissioner to resolve.

The Optalis Board has recently reviewed its Corporate Risk Register and is prioritising efforts in relation to Data Protection best practice and Health & Safety governance.

Growth success in the immediate term is focussed around a private home care offering, the success of which will be dependent upon our ability to recruit staff and generate capacity to deliver a much needed service.

Recent tender wins with Bracknell Forest (Extra Care Housing) and Bury LA (A local

authority trading company (LATCO) consultancy), together with the transfer from the Council of a number of learning disability supported housing services from another provider, put Optalis in a strong position going into 2015/16.

### **2.3 Wokingham Housing Ltd (WHL)**

#### **2.3.1 WHL Completed schemes:**

The residents at Hillside Park, (10 flats for people with learning disabilities and 2 older persons bungalows), are settled in and the inspections to conclude the defects liability period are underway. At New Beverly House, (Vauxhall Dr), the 4 residents with learning disabilities are also settled in their new home.

#### **2.3.2 WHL Schemes in Progress and/or Development :**

Eustace Crescent, (Phoenix Avenue): Planning permission has been secured for 68 new homes, (50% social rent and 50% affordable rent), on this former council estate. The contract is out to tender via the Homes and Communities Agency, (HCA), Development Partner Framework, with the contractor being appointed at the end of June and a start on site in mid-August. The first handovers are scheduled for mid-February 2017

Former Fosters Care Home: Planning permission has been awarded for 34, (affordable rent), enhanced care flats for older people on the site of the former Fosters Care Home. The detailed design is being developed with specialist architects and with input from WBC's Adult Social Care Team. This scheme will also be procured via the HCA Framework, with a contractor due to be appointed in October for a start on site in November. Handover is expected in April 2017. The HCA have recently confirmed that £1.4m of grant funding is allocated to the project, (50% payable on commencement and 50% on completion).

Barratt Crescent: This scheme of 2 X 2 bed flats to be let at social rents is due to go before the Planning Committee in May.

Pipe-line sites: A pipe-line of around 55 smaller sites is at various stages of development and will go before the Planning Committee during the spring and summer period. WHL is also working with WBC on bringing forward proposals for the regeneration of Gorse Ride and a number of other significant opportunities on WBC sites and other locations.

Loddon Homes: The Registered Provider (RP) work will be finished during May 2015 and will be considered by the WHL Board and the WBC (Holdings) Ltd shortly afterwards and subject to approval onto the HCA to be considered by their Regulatory Committee. This will be the first registration of a local authority housing company sponsored registered provider. A total of £1.75m of grant funding has been secured to date for WHL's Hillside and Fosters schemes.

Staffing Update: The staff team has been strengthened by the appointment of Darren Toes, (a chartered surveyor), as Operations Director. The Managing Director, Robin Fielder will be leaving at the end of May. Bill Flood, a very experienced manager with private and public sector experience will be taking up the post of Managing Director in mid-May.

### **3. Budget Monitoring for the 10 months to February 2015**

**3.1 WBC Group Consolidated**, (i.e. comprising WBC (Holdings) Ltd, Wokingham Housing Ltd, and Optalis Ltd).

The figures shown below represent the overall expenditure and income of the Council's subsidiary companies :

At the operational level, the net surplus was £4k compared to budgeted surplus of £89k largely due to a shortfall in Optalis income.

After tax, interest and exceptional items, the loss to date is £171k compared to a budgeted loss of £349k. The shortfall in Optalis income is offset by savings of interest on loans for WHL developments partially offset by capitalisation and other WHL costs explained below.

#### **3.2 WBC (Holdings) Ltd**

A loss of £106k is reported compared to a budgeted loss of £464k. This is largely due to a saving of £330k on interest as anticipated works on Eustace Crescent did not take place, and as a result forecast loans from the Council to WBC (Holdings) Ltd were significantly lower at £612k than the forecast, resulting in lower interest charges. Losses are expected in the early years as a result of the upfront investments required with subsequent income accruing from the investments.

#### **3.3 Optalis**

The Year to Date pre-tax result for the ten months to February 2015 is a profit of £148k - favourable to budget by £13k (budget £130k)

The key favourable variances during the year have related to operational vacancies and delays in recruitment, and unbudgeted third party income. These have been offset by unfavourable variances in agency spend, the implementation of the National Pay Agreement and lack of private homecare growth.

The forecast for the full year is to be lower than budget at £155k (budget £180k). A budgeted amount of £195k has been returned to the Commissioner within these amounts

Net assets at 28 February are £152k (budget £136k) and are forecast to be at this level at year end.

Cash at 28 February was £518k (budget £141k), and is forecast to be approximately £600k at year end (budget £347k).

#### **3.4 Wokingham Housing Ltd**

An operating loss of £185k is reported for the 10 month period, compared to a budgeted profit of £9k. This variance is largely due to a decision to reverse the capitalisation of staff salaries, which accounted for an extra £140k charge to the Profit and Loss Account. In addition, a £24k charge for depreciation was unbudgeted, while there were £34k extra property related costs for rates, repairs and a review of sites. Similar to WBC (Holdings) Ltd, deficits are expected in early years as operational costs are required to develop income generating schemes.

## **4. Background to Budget Monitoring Reports**

### **4.1 WBC (Holdings) Ltd**

Profit & Loss Account (P & L) for the 10 months to February 2015

<b>WBC (Holdings) Ltd</b>			
	Feb YTD	Feb YTD	Feb YTD
Profit and Loss Account for the period to 28 <sup>th</sup> February 2015	Actual	Budget	Variance
	£	£	£
Income	0	0	0
Operating Expenditure	(106,275)	(463,660)	(194,967)
Operating Loss	<u>(106,275)</u>	<u>(463,660)</u>	<u>(193,545)</u>

Expenditure for the 10 months of £272k is £106k is £358k below budget of £464k primarily as a result of interest on loans being below budget due to delayed starts on WHL developments.

### **4.2 Wokingham Housing Ltd (WHL)**

P&L for the 10 months to February 2015

<b>Wokingham Housing Ltd</b>			
	Feb YTD	Feb YTD	Feb YTD
Profit and Loss Account for the period to 28 <sup>th</sup> February 2015	Actual	Budget	Variance
	£	£	£
Income	87,050	85,866	1,422
Operating Expenditure	(271,978)	(77,011)	(194,967)
Operating Loss	<u>(184,928)</u>	<u>8,855</u>	<u>(193,545)</u>

Income for the 10 months is £87k, which is in excess of budget of £86k.

Operating expenditure for the 10 months of £272k is £195k adverse to budget of £77k primarily as a result of reversal of capitalisation unbudgeted depreciation charges

The full year forecast is for a loss of £259k profit.

## Balance Sheet

### Wokingham Housing Limited / Loddon Homes Limited

#### Statement of Financial Position (Balance Sheet) P11 - February 2015

	31st March 2014		28th February 2015	
	£	£	£	£
<b>Non-Current Assets</b>				
Leasehold Properties	1,280,650		1,265,301	
Furniture & Fittings	19,350		16,824	
Assets under Construction	84,289		272,275	
Investments	1	1,384,290	-	1,554,399
<b>Current Assets</b>				
Dr Control	-		26,771	
Pre-Payments	7,731		5,574	
Inter-Co Drs	175,000		15,443	
Bank A/c	115,386		286,692	
VAT Liability	2,721	300,838	8,413	342,894
<b>Current Liabilities</b>				
Cr Control	(15,807)		(19,031)	
Retentions	(43,994)		(43,994)	
Inter-Co Crs	(203,217)		(28,898)	
Accruals	(48,502)	(311,520)	(3,975)	(95,898)
<b>Net Current Assets/(liabilities)</b>	<b>(10,682)</b>		<b>246,996</b>	
<b>Total Assets less Current Liabilities</b>	<b>1,373,608</b>		<b>1,801,395</b>	
Non-Current Liabilities			(612,715)	
<b>Total Assets less Total Liabilities</b>	<b>1,373,608</b>		<b>1,188,680</b>	
<b>Equity</b>				
Reserves	(526,392)		(711,320)	
Share Capital	1,900,000		1,900,000	
<b>Total Equity</b>	<b>1,373,608</b>		<b>1,188,680</b>	

Non-Current Assets of £1.55m comprise of Leasehold Properties £1.265m (Hillside Park), Furniture and Fittings £17k (Hillside Park), Assets Under Construction £272k

Current Assets of £343k comprise £47k debtors and prepayments, £287k cash as the bank and £8k VAT refund expected

Current Liabilities of £96k represent the value of invoices held at the balance sheet date that will be due for payment.

Reserve liabilities are £711k.

In total there are 1,900,000 issued and fully paid Ordinary £1 shares held by WBC (Holdings) Ltd. The authorised share capital remains at £1.9m.

### 4.3 Optalis

P&L for the 10 months to February 2015

Total Company	Actual	Budget	Budget Variance
	(£000)	(£000)	(£000)
Income	10,106	10,299	(193)
Costs	(9,782)	(10,044)	262
Operating Profit	324	255	69
Non trading costs	(101)	(54)	(47)
Depreciation	(75)	(66)	(9)
<b>Profit before tax</b>	<b>148</b>	<b>135</b>	<b>13</b>
Corporation tax	(27)	(30)	3
Net profit	121	105	16

#### 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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