

<b>TITLE</b>	<b>Shareholders' Report</b>
<b>FOR CONSIDERATION BY</b>	The Executive on Thursday, 25 July 2019
<b>WARD</b>	None Specific;
<b>LEAD OFFICER</b>	Deputy Chief Executive - Graham Ebers
<b>LEAD MEMBER</b>	Executive Member for Finance and Housing - John Kaiser

<p><b>PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)</b>          Transparency in respect of Council Owned Companies</p>
<p><b>RECOMMENDATION</b></p> <p>The Executive is asked to note</p> <ol style="list-style-type: none"> <li>1) the budget monitoring position for the month ending 31<sup>st</sup> May 2019;</li> <li>2) the operational update for the period to 31<sup>st</sup> May 2019</li> </ol>
<p><b>EXECUTIVE SUMMARY</b></p> <p>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.</p> <p><u>Housing.</u> 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.</p> <p>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.</p> <p>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.</p> <p><u>Adult Care Services.</u> 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.</p>

**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 March 2019

**Operational Update**

An operational update is provided in section 1 for each of the companies as at 31<sup>st</sup> May 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 May 2019.

## **BACKGROUND**

### **Housing Group**

### **Operational Report**

### **WBC Holdings Limited (WBCHL)**

#### **Changes in Directors**

There have been various appointments and resignation within WBC Holdings Limited. Mr David Lee, Mr Alistair Auty and Mr Julian McGhee Sumner, resigned as Board Members. We would like to thank them all for playing a key role in the development of this company. With effect from June 2019 the company appoints a new Chairman, Mr John Halsall, Directors Mr Graham Ebers, Mr Wayne Smith. Mr John Kaiser continues to hold his position as the Vice Chairman and Mr Stuart Munro holds his position as a Director.

### **Wokingham Housing Limited (WHL):**

There are currently 63 units on site or about to start on site across five separate projects. Phase 1 of the Gorse Ride Arnett Avenue is the largest of these with the construction of 46 units, which will create decanting opportunities for then developing the rest of Gorse Ride South.

WHL is working on a further 270 units on previously identified sites, of which the major regeneration project of Gorse Ride South is the most important. The submission of the planning application for a scheme of 249 units to replace the existing estate of 178 homes is due to be lodged this summer for a decision in the autumn.

Work is ongoing to review and look at the development potential of other Council-owned land sites, but many will fall away through not being able to meet planning requirements. However, a handful of these potential projects will come through and add to the existing pipeline.

WHL continues to meet with land agents and developers who may have joint venture opportunities where we may be able to deliver some additional affordable housing or some private sale developments. WHL are also working closely with WBC to see how it might be able to best support the emerging WBC Housing Strategy currently under development.

Around development activity, the main issue of note is around Resource Building Services, who were building two shared ownership units at Middlefield, going into administration. The site has been secured and we are looking at our options to complete the units as quickly as possible. While a disappointment and frustration the units are well advanced and watertight, so we hope completion will not be too delayed.

All other projects are progressing to time and to budget, although Tape Lane – 11 affordable homes being built by WHL for WBC Housing Services – has had to be re-forecast because of initial delays in the project starting when residents proved hard to decant and utility disconnections therefore got delayed.

### Changes to Directors:

WHL company directors have changed. Fred Wright (Vice-Chair and independent non-executive director (NED)) and Bill Flood (Executive Director) remain on the Board, with John Kaiser (Councillor NED) stepping in to the role of Chair, Daniel Sargeant (Councillor NED) and Robin Roberts (independent NED) all joining the Board. Alistair Auty, the previous Chair and a Councillor until May 2019, leaves the Board and we thank him for his service to WHL over many years.

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

The Board need to discuss what the future looks like for BBHL and how the company can best meet the shareholders aspirations and objectives. The company was set up to manage external policy drivers from central Government, but this landscape has now changed and therefore the rationale for retaining BBHL as a second delivery vehicle for affordable housing is no longer relevant. The Board will be exploring the transfer of its stock of 78 homes, with its associated liabilities, to Loddon Homes over the coming months.

BBHL is progressing the work around the 22 Peach Place key worker housing units that we now expect to be handed over in September. In preparation of the units becoming available BBHL has marketed the units and built up a list of applicants interested in renting one of the key worker units. Once complete, this will take BBHLs stock to 100 units.

### Changes to Directors:

BBHL company directors have changed. Robin Roberts (independent NED) and Bill Flood (Executive Director) remain on the Board, with John Kaiser (Councillor NED) stepping in to the role of Chair, Daniel Sargeant (Councillor NED) and Fred Wright (independent NED) all joining the Board. David Chopping, the previous Chair and a Councillor until May 2019, leaves the Board and we thank him for his service to all the Local Housing Companies over many years. Derek Cash (independent NED), is also stepping down from the Board to join the Loddon Homes Board which has a vacancy. We thank him to his service to BBHL and are glad to retaining his skills and experience on the Board of Loddon Homes.

### **Loddon Homes Limited:**

The shared ownership sales of the six Norton Road units are going well. Four of the six units have sold, and we are confident the strong interest in the last two units will mean they are sold promptly. The three general needs homes for affordable rent were let shortly after completion in early May.

Day to day operational housing management provided by WBC Housing Services is now working well with the Housing Officer assigned to the Local Housing Companies stock clearly now providing a strong point of contact for residents.

The policy work being undertaken by a consultant working with both Loddon Homes and WBC on policies and procedures, is picking up the areas of weakness we know need to be improved and streamlined. This will deal with the remaining issues which still need to be addressed to provide an even better service to residents.

## Changes to Directors:

There is one change to the Loddon Homes' Board of Directors. Lionel Haynes, an independent NED, who had been on the Board since its registration with the Regulator of Social Housing in summer 2016, stepped down in July 2019. Holdco have approved the proposal to replace him with Derek Cash, who was previously on the BBHL Board. This would mean the Board remained at full strength with the seven members it currently has.

## **2. Financial Report**

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

#### **WBC Holdings**

P02: May-19	WBC Holdings - Profit & Loss								
	Month			YTD			Full Year		
	May-19	May-19	Variance	May-19	May-19	Variance	May-19	May-19	Variance
	Budget	Actual		Budget	Actual		Budget	Forecast	
£K	£K	£K	£K	£K	£K	£K	£K	£K	
Income	44	44	0	88	88	0	528	528	0
Expenditure	(63)	(63)	0	(125)	(125)	0	(751)	(751)	0
Operating Profit/(Loss)	(19)	(19)	0	(37)	(37)	0	(223)	(223)	0

There were no major variances to budget for WBC (Holdings) Ltd during May 2019.

At this point in the year, the full year results are expected to be in line with budget for WBC Holdings assuming completed schemes finish within budget and estimated timeframes.

#### **Wokingham Housing Limited (WHL)**

P02: May-19	Wokingham Housing Limited - Profit & Loss								
	Month			YTD			Full Year		
	May-19	May-19	Variance	May-19	May-19	Variance	May-19	May-19	Variance
	Budget	Actual		Budget	Actual		Budget	Forecast	
£K	£K	£K	£K	£K	£K	£K	£K	£K	
Income	366	186	(180)	745	366	(379)	9,028	8,875	(152)
Expenditure	(383)	(191)	192	(780)	(397)	383	(9,204)	(8,963)	241
Operating Profit/(Loss)	(17)	(5)	12	(35)	(31)	4	(176)	(88)	88

#### **Income & Expenditure:**

Income for May 2019 at WHL was £186k, which reflected a £180k negative variance due to development activity at Tape Lane being lower than budgeted. Year-to-date revenues reached £366k, which reflected a £380k negative variance due to lower construction revenue from WBC for Tape Lane as well as delays in the Middlefield project due to contractor difficulties. Full year income is expected to reach just under £9m as current projects complete and new projects come online.

The lower monthly income was countered by lower monthly costs of £191k, which were £192k better than budgeted. Year-to-date costs were £397k which reflected a £383k positive variance, reflecting the lower construction revenue 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 May 2019 was £5k, which reflected a £12k positive variance against budget, and the year-to-date loss was £31k, reflecting a £4k positive variance. The full year operating loss is expected to be £88k, reflecting an £88k positive variance. This is achieved primarily through tight control of overheads for the remaining part of the year.

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

<b>Loddon Homes Limited- Profit &amp; Loss</b>									
P2: May -19	Month			YTD			Full Year		
	May-19	May-19		May-19	May-19		May-19	May-19	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Forecast	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	701	271	(430)	746	315	(430)	1,774	1,712	(61)
Expenditure	(536)	(209)	327	(573)	(245)	328	(1,360)	(1,334)	26
Operating Profit/(Loss)	165	62	(103)	173	70	(102)	414	378	(35)

#### **Income & Expenditure:**

Income for May 2019 at LHL reached £271k, which reflected a £430k negative variance due to two out of six shared ownership sales transacting in the month instead of the forecasted six units. On a year-to-date basis, income reached £315k at LHL, reflecting a £430k negative variance. As the remaining units are sold, the year-to-date negative variance will reduce. Full year income is expected to reach £1.7m, reflecting a £61k negative variance.

Expenditure reached £209k in the month, which was £327k better than budget due to lower cost of shared ownership sales and overheads. Year-to-date costs of £245k reflected a £328k positive variance against budget. Full year expenditure is expected to reach £1.3m, reflecting a £25k positive variance against budget.

The operating profit of £62k in May 2019 reflected a £103k negative variance against budget due to the variances explained above. The year-to-date operating profit of £70k is £102k below budget, due to shared ownership sales variances explained above. Full year operating profit is expected to reach £378k, reflecting a £35k negative variance.

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

<b>Berry Brook Homes Limited- Profit &amp; Loss</b>									
P2: May 19	Month			YTD			Full Year		
	May-19	May-19		May-19	May-19		May-19	May-19	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	50	48	(1)	99	97	(3)	644	637	(7)
Expenditure	(23)	(15)	8	(46)	(28)	18	(281)	(171)	110
Operating Profit/(Loss)	27	33	7	53	69	15	363	466	103

### **Income & Expenditure:**

Income in May 2019 at BBHL reached £48k, which was slightly below budget due to rent increases taking place at tenancy anniversary dates rather than on 1<sup>st</sup> April, as originally expected. Year-to-date income of £97k reflected a £3k negative variance, for the same reason. Full year income is expected to reach £637k, a £7k negative variance.

Expenditure reached £15k in the month, which reflected an £8k positive variance against budget. Year-to-date expenditure reached £28k, which was £18k better than budget. These variances were due to lower direct property costs and tight control of overheads. Full year expenditure is expected to reach £171k, a £110k positive variance due to tight control of direct property costs and overheads.

Operating profit in the month of £33k was £7k higher than budget, and the year-to-date operating profit of £69k reflects a £15k positive variance against budget. Full year operating profit is expected to reach £466k, reflecting a £103k positive variance against budget.

## **Adult Care Services Group**

### **1. Operational Report**

#### **Optalis Limited**

##### **General:**

Optalis continues to out-perform its targets in a number of key areas. Financially, our first two months of the year have delivered above target performances. From a staffing perspective, our agency costs have reduced and our vacancy rates are lower than the national benchmarks. Our HR and OD teams have been working hard to build a pipeline of applicants which will help mitigate our vacancies.

Operationally, our track record in terms of quality is excellent; our journey herculean. We have also established a proactive list of business development opportunities driven by the needs of our shareholders, and other areas, such as Harrow and Luton who have shown interest in what we do, and what we have achieved.

We have a number of key projects due to reach completion between July and December this year. The successful delivery of these projects will have a positive and lasting effect on helping Optalis grow as an organisation.

Work is underway to recruit a new CEO for Optalis, with interviews taking place in the coming weeks ahead. This will coincide with the need to plan ahead as we look beyond Optalis 2020 and create an enhanced strategy which will align with our shareholders and the needs of our customers, our colleagues and the communities we serve.

## 2. **Financial Report**

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

P02: May 19	Month			YTD			Full Year		
	May-19	May-19		May-19	May-19		May-19	May-19	
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Income	0	0	0	7,549	7,522	27	45,294	45,294	0
Expenditure	0	0	0	(7,537)	(7,510)	(27)	(45,222)	(45,222)	0
Operating Profit/(Loss)	0	0	0	12	12	0	72	72	0

### May 2019 results:

Optalis YTD results up to May 19 are on budget and expected to meet budget expectations for the FY19/20.

### **BUSINESS CASE**

Not applicable – information report only

### **FINANCIAL IMPLICATIONS OF THE RECOMMENDATION**

***The Council continues to face severe financial challenges over the coming years as a result of reductions to public sector funding and growing pressures in our statutory services. It is estimated that Wokingham Borough Council will be required to make budget reductions of approximately £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	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>
Not applicable – information report only

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

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