

TITLE	Council Owned Companies Business
FOR CONSIDERATION BY	The Executive on 25 June 2015
WARD	None specific
DIRECTOR	Graham Ebers, Director of Finance and Resources
LEAD MEMBER	Keith Baker, Leader of The Council

OUTCOME / BENEFITS TO THE COMMUNITY

Transparency in respect of Council Owned Companies

RECOMMENDATION

The Executive is asked to:

- 1) note the budget monitoring position for the financial year 2014-15;
- 2) note the operational update for the financial year 2014-15.

SUMMARY OF REPORT

Changes in Directorship in WBC (Holdings) Limited

There have been no changes to WBC (Holdings) Ltd directorships since the last report to Executive in May 2015.

Strategy and Objectives of the Council's Subsidiary Companies

There has been no change to the Strategy and Objectives of the Council's Subsidiary Companies included in the report to Executive Committee in May 2015.

Operational Update

An operational update is provided for each of the companies as at May 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.

Financial Report

A budget monitoring report is provided for each of the companies for 2014/15, 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. The figures are provisional and subject to audit.

1. Operational Update to May 2015

1.1 WBC (Holdings) Ltd

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

1.2 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.

1.3 Wokingham Housing Ltd (WHL)

1.3.1 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.

1.3.2 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 left at the end of May. Bill Flood, a very experienced manager with private and public sector experience has taken up the post of Managing Director in mid-May. A revision of the WHL business plan will be produced and circulated as early as possible to clarify WHLs key objectives and targets in supporting the Council's agenda's. This will include the role LHL will play in delivering parts of WHLs business plan around affordable housing.

2. Budget Monitoring for 2014-15 financial year

2.1 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 deficit was £140k compared to budgeted surplus of £130k.

After tax, interest and exceptional items, the loss for the year is £368k compared to a budgeted loss of £387k. A shortfall in Optalis income was largely offset by savings in Optalis expenditure, and by savings of interest on loans for WHL developments partially offset by capitalisation and other WHL costs explained below.

2.2 WBC (Holdings) Ltd

A loss of £177k is reported compared to a budgeted loss of £537k. This is largely due to a saving of £390k 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. The balance sheet reflects the transfer of the Council's shareholdings in Optalis and WHL totalling £1.95m to WBC (Holdings) Ltd.

2.3 Optalis

The full year pre-tax result for the twelve months to March 2015 is a profit before tax of £155k - unfavourable to budget by £25k (budget £180k).

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.

A budgeted amount of £195k has been returned to the Commissioner within these amounts.

Net assets at 31 March are £154k (budget £171k) Cash at 31 March was £610k (budget £347k).

2.4 Wokingham Housing (Including Wokingham Housing Ltd & Loddon Homes Ltd)

An operating loss of £323k is reported for the full year, compared to a budgeted profit of £10k. This variance is largely due to a decision to reverse the capitalisation of staff salaries, which accounted for an extra £182k charge to the Profit and Loss Account. In addition, a £27k charge for depreciation was unbudgeted, while there were £44k extra property related costs for rates, repairs and a review of sites. Additional financial support costs, unbudgeted audit fees and central professional support added £40k to costs while recognition of interest on loans from WBC / WBC (Holdings) added a further 24k to costs. Similar to WBC (Holdings) Ltd, deficits are expected in early years as operational costs are required to develop income generating schemes.

3. Background to Budget Monitoring Reports

3.1 WBC (Holdings) Ltd

Profit & Loss Account (P & L) for the 2014-15 financial year

WBC (Holdings) Ltd			
	Actual	Budget	Variance
	£	£	£
Income	0	0	0
Operating Expenditure	(176,856)	(536,961)	(360,105)
Operating Loss	(176,856)	(536,961)	(360,105)

Expenditure for the year of £177k is £360k below budget of £537k 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 full year to March 2015

Wokingham Housing Ltd (Consolidated)			
	Mar YTD	Mar YTD	Mar YTD
Profit and Loss Account for the period to 31 st March 2015	Actual	Budget	Variance
	£	£	£
Income	94,026	93,676	350
Operating Expenditure	(416,643)	(84,018)	(332,625)
Operating Loss	(322,616)	9,658	(332,275)

Income for the full year is £94k, which exceeds the budget by £350.

Operating expenditure for the full year of £417k is £333k adverse to budget of £84k, primarily as a result of the reversal of capitalised pay costs, unbudgeted depreciation charges and under-budgeted tenanted property costs.

Balance Sheet

WOKINGHAM HOUSING LIMITED / LODDON HOMES LIMITED

Statement of Financial Position (Balance Sheet): March 2015

	Loddon Homes Ltd	Wokingham Housing Ltd	Combined 31st March 2015			Combined 31st March 2014
	£	£	£			
Non-Current Assets						
Leasehold Properties	1,262,936.53	0.00	1,227,790.53			1,280,650.00
Furniture & Fittings	16,511.20	0.00	16,511.20			19,350.00
Assets under Construction	0.00	744,283.09	744,283.09			84,289.00
Investments	0.00	1.00	0.00	1,988,584.82	1.00	1,384,290.00
Current Assets						
Dr Control	22,938.31	6,157.32	29,095.63			0.00
Pre-Payments	1,190.55	6,360.05	7,550.60			7,731.00
Inter-Co Drs	347.80	1,570,135.33	483.13			175,000.00
Bank A/c	35,618.17	185,804.39	221,422.56			115,386.00
VAT Liability	0.00	15,188.91	15,188.91	273,740.83	2,721.00	300,838.00
Current Liabilities						
Cr Control	(407.83)	(72,539.55)	(72,947.38)			(15,807.00)
Retentions	0.00	(43,994.41)	(43,994.41)			(43,994.00)
Inter-Co Crs	(1,582,381.30)	(399,167.50)	(421,421.71)			(203,217.00)
Accruals	(6,570.00)	(88,832.08)	(95,402.08)	(633,765.58)	(48,502.00)	(311,520.00)
Net Current Assets/(liabilities)	(1,529,264.30)	1,179,112.46	(360,024.75)			(10,682.00)
Total Assets less Current Liabilities	(249,816.57)	1,923,396.55	1,628,560.07			1,373,608.00
Non-Current Liabilities		612,715.00	612,715.00			
Total Assets less Total Liabilities	(249,816.57)	1,310,681.55	1,015,845.07			1,373,608.00
Equity						
Reserves	(249,817.57)	(589,318.45)	(884,154.93)			(526,392.00)
Share Capital	1.00	1,900,000.00	1,900,000.00			1,900,000.00
Total Equity	(249,816.57)	1,310,681.55	1,015,845.07			1,373,608.00

Non-Current Assets of £1,988k comprise of Leasehold Properties £1.228m (Hillside Park), Furniture and Fittings £17k (Hillside Park), Assets Under Construction £744k

Current Assets of £274k comprise £37k debtors and prepayments, £221k cash as the bank and £15k VAT refund expected

Current Liabilities of £634k comprise £168k of invoices held and accrual projections at the balance sheet date in addition to £44k of retentions and £421k owed to WBC / WBC (Holdings).

Non Current Liabilities of £613k relate to inter-group loans.

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 12 months to March 2015

Overview of Results – YTD

Total Company	Actual	Budget	Budget Variance
	(£000)	(£000)	(£000)
Turnover	11,044	11,295	(251)
Costs	(10,695)	(10,983)	288
Operating Profit	349	312	37
Non trading costs	(112)	(60)	(52)
Depreciation	(82)	(72)	(10)
Profit before tax	155	180	(25)
Corporation tax	(33)	(40)	7
Net profit	122	140	(18)

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

Contact Stephen McGrail	Service Resources
Telephone No 0118 974 6560	Email Stephen.McGrail@wokingham.gov.uk
Date 15 June 2015	Version No. 1