

To: Cabinet
Date: 15 November 2017
Status: Non-Key Decision
Director: Susan Priest, Corporate Director, Strategic Development
Oportunitas Chairman: Councillor Claire Jeffrey

**SUBJECT: OPORTUNITAS QUARTERLY PROGRESS REPORT
2017/18 (Q1 & Q2)**

SUMMARY: This report provides an update from the Board of Oportunitas Ltd (“the company”) covering activities undertaken in Q1 & Q2 of the current 2017/18 financial year, including a financial statement in-line with the requirement contained in the Shareholder’s Agreement between the company and the Council.

REASON FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because:-

- a. **Oportunitas Ltd (“the company”) is required to provide quarterly updates to Cabinet as set out in the Shareholder’s Agreement between the company and the Council.**

RECOMMENDATIONS:

1. **To receive and note the report.**

1. BACKGROUND

- 1.1 On establishing Oportunitas a series of supporting documents (Articles, Shareholder’s Agreement, and Service Level Agreement) were entered in to and clause 8.3.16 of the Shareholder’s Agreement states that:

“as soon as practicable and in any event within 15 Business Days of the end of each quarter, or such other period as may be agreed by Cabinet, the Company shall send to the Cabinet a report showing progress against the Business Plan.”

1.2 Therefore, in line with this provision, this report sets out the progress of Oportunitas Ltd. in 2017/18 in relation to its investments and trading activity.

1.3 In addition, Clause 8.3.13 of the Shareholder's Agreement states that:

“save to the extent otherwise agreed by the Cabinet, the Company shall prepare and provide to the Cabinet, by no later than 20 Business Days following the end of the 6 month period to which they relate, a financial statement and unaudited management accounts for the Company containing such information as the Cabinet shall agree from time to time for such relevant 6 month period. The Cabinet may request from time to time that the Company provides such a report to cover a shorter period.”

1.4 A financial statement for the period from 1 April 2017 to 26 September 2017 is included under appendix 1 of this report. A net loss of £20k has been incurred to September 2017, almost identical to the equivalent position for the previous year.

2 INVESTMENT PORTFOLIO UPDATE

2.1 At the time of writing Oportunitas has invested in 29 residential units and one commercial unit which are offered at market level rents. Oportunitas continues to look for and assess more purchase opportunities as they arise. In total £4.78m of capital funding has been approved to support the acquisitions programme and about £3.53m has been used for the properties acquired to date, leaving £1.25m available to invest.

2.2 The current property portfolio is therefore as follows:

Walter Tull Way, Folkestone

2 x 1 bed units

2 x 2 bed units

1 x 3 bed unit

6 visitor car parking spaces

2 Grove Terrace, Dover Road, Folkestone

1 x 4 bed unit

15 Grace Hill, Folkestone

5 x 1 bed units

1 x commercial unit

82-84 Leyburne Road, Dover

8 x 2 bed units

Unused garage with development potential (currently let for storage)

19 Castle Hill Avenue, Folkestone

9 x 1 bed units

1 x 2 bed unit

- 2.3 The board has also identified the potential of securing an additional 20 new units in Folkestone. Further detailed work is being undertaken which, if successful, will see investment being made during 2018/19 and 2019/20. The acquisition of these units would be subject to the Council approving further investment in the company.
- 2.4 In addition, negotiations are taking place regarding the freehold acquisition of 4 units in a single block comprising 3 x 1 bed and 1 x 2 bed unit all with off-street parking in Folkestone. Expectations are for a deal to be concluded during Q3 of 17/18 and the cost can met from the existing agreed capital funding available from the council.
- 2.5 All properties are currently tenanted and when vacancies have occurred the company's agents have worked hard to minimise void periods.
- 2.6 The company is required to have its property portfolio independently revalued as at 31 March each year. At 31 March 2017 the company benefitted from an increase of 6% in value for those properties held since 31st March 2016, such as Walter Tull Way and Grace Hill. The properties at Leyburne Road saw a 4% increase in value from December 2016 to March 2017, measured against their basic acquisition costs excluding fees. The Valuer has indicated that the rate of increase for local residential property prices is slowing down in the current year and this could be around 3% for the 12 month period to 31st March 2018.
- 2.7 Since the last update was presented to Cabinet in March 2017, the Board has taken the following steps to reduce operational expenditure:

Reduction in Management Fees – Negotiations took place with both our managing agents, Reeds Rains and Smith Woolley, to reduce their management and set up fees for new tenancies. The outcome of these negotiations successfully resulted in both agents reducing their fees and set up fees.

Rental Review – Oportunitas sought advice from our managing agents on rentals charged. Reeds Rains conducted a full review of the Walter Tull Way portfolio and identified scope for increases in line with trending market rates. The Board approved rental increases and these were implemented from May 2017, following statutory notice periods.

Review of Property Management Arrangements – In June 2017 the Board agreed to move the management of No 4 Walter Tull Way from Reeds rains to Smith Woolley. The decision followed a notice of tenancy vacation and a review of the management arrangements to a more competitive offer. The property was immediately re-tenanted under the new managing agent. Oportunitas continues to review to ensure best value is being provided.

3 TRADING ACTIVITY – UPDATE

- 3.1 The number of ground maintenance quotations for private clients from 1st April 2016 to 30 September 2017 was (the point of writing this report) was 138. This is a decrease of some 21% on 2016/17 figures (175 quotes given) representing a reduction in the level of interest for services. The advertising for services focused in the last period on tree works; this could have impacted on the amount of quotes requested due to a very competitive market.
- 3.2 The number of accepted quotes was 46, the number not accepted was 4, with 88 awaiting confirmation.
- 3.3 The total value of quotes accepted during the period was £13,298 ex VAT and the total value of works completed during the period was £8,119 ex VAT.
- 3.4 The value of works completed during this period from earlier quotations in previous trading periods and the completion of regular jobs was £9,091 ex VAT. The total income over this period was therefore £17,210 ex VAT.
- 3.5 The Board has recently asked that more emphasis is given to promoting services and the website will be enhanced. The increased use of social media will also be monitored and further reports will be presented to the Board.

4 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

Legal (NE) – The power for councils to trade their services for cost recovery only has been in force for many years. The power for councils to establish companies to trade for profit is set out more recently in the Localism Act 2011. The company model provides the only mechanism for local councils to operate more commercially and generate profit.

Officers have taken specialist legal advice from Bevan Brittan and will continue to work with these external legal advisers as and when the need arises.

Resources (LW) – The council's approved capital funding of £4.78m towards the company is identified in the body of the report along with the £0.3m working capital facility. The company has approximately £1.25m of resources available to it through the council to support further acquisitions in line with the approved Business Plan. As its shareholder, the council is currently undertaking a review of the funding structure of the company with the aim of ensuring its long term financial sustainability and providing the council with an optimum return on its investment.

Equalities – There are no diversity or equalities implications arising from this report.

5 CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officers prior to the meeting:

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Appendix 1 - Financial Statement Period 1st April 2017 to 26th September 2017

The Company's draft profit and loss statement and balance sheet for the trading period 1st April 2017 to 26th September 2017.