



To: Cabinet
Date: 28 March 2018
Status: Non-Key Decision
Director: Susan Priest, Corporate Director, Strategic Development
Oportunitas Chairman: Councillor Claire Jeffrey

**SUBJECT: OPORTUNITAS - PROGRESS REPORT & BUSINESS PLAN
2018/19**

SUMMARY: This report provides an update from the Board of Oportunitas Ltd (“the company”) covering activities undertaken in 2017/18 which includes a financial statement in-line with the requirement contained in the Shareholder’s Agreement between the company and the Council. It also proposes a Business Plan for the period 2018/19.

RECOMMENDATIONS:

1. To receive and note the report C/1792.
2. To agree the Business Plan for Oportunitas Limited for the financial year ending 31 March 2019.

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 31 January 2018 is included under appendix 1 of this report. A net loss of almost £26k has been incurred to 31 January 2018; the accumulated loss on the profit and loss account is now almost £202k.

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 is currently in the process of acquiring a single property consisting of a further 4 residential units, with completion expected by the end of March 2018. The company continues to look for and assess more purchase opportunities as they arise.

- 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 1 bed units

Unused garage with development potential

19 Castle Hill Avenue, Folkestone

9 X 1 bed units

1 X 2 bed unit

- 2.3 All properties are currently tenanted and when vacancies have occurred the company's agents have worked hard to minimise void periods.
- 2.4 The company is required to have its property portfolio independently revalued as at 31 March each year and the work is currently being undertaken for the year to 31 March 2018. At 31 March 2017 the company benefitted from an increase of £119k or 5.3% across its whole property portfolio measured against the full acquisition cost, including Stamp Duty. The Valuer has initially indicated that local residential property prices are anticipated to rise by approximately 3% for the year to 31 March 2018.

3 TRADING ACTIVITY – UPDATE

- 3.1 The number of ground maintenance quotations for private clients from 1st April 2017 to 26th February 2018 (the point of writing this report) was 291. The number of quotes given in the same period 16/17 was similar although the value of quotes accepted in this period compared to 16/17 has increased by some £6,000 indicating that higher value work is being carried out. This means the average value of a job has increased by £40.
- 3.2 The number of accepted quotes was 132, the number not accepted was 72, with 87 awaiting confirmation.
- 3.3 The total value of quotes accepted during the period was £48,972.67 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 £46,165.41 ex VAT. The total income over this period was therefore £57,336.41 ex VAT.

4 BUSINESS PLANNING FOR 2018/19

- 4.1 In the documents providing the framework for Oportunitas there is a need for the company always to have a current business plan as approved by SDC's Cabinet. A proposed Business Plan is appended to this report as appendix 2.
- 4.2 A recent review undertaken by the Shareholder of the financial sustainability of the company was considered by Cabinet on 28 February 2018 (report number C/17/81 refers). In summary the report found that for the company to be become financially sustainable in the long term it required:

- £6.9m minimum additional capital investment to acquire further residential properties to provide an enhanced revenue stream to trade sustainably;
 - The overall debt to equity ratio to be reduced from 90%:10% to 58%:42%;
 - Commercial interest on the loan element to remain at 4.88%;
 - A minimum gross rental yield of 5% is required for new acquisitions;
 - It will take at least 2 years for the company to acquire the additional residential property;
 - It will take about a further 4 years from the completing the acquisitions to generate sufficient operational profits to absorb the forecast accumulated loss of around £300k; and
 - The existing £300k liquidity loan facility to be reviewed.
- 4.3 The review also outlined the Council would receive an on-going net revenue benefit of about £300k per annum, equivalent to 2.6% annual return on its capital employed.
- 4.4 Cabinet approved the proposal and on the 28th February 2018 and Council approved the additional capital investment as part of the Medium Term Capital Programme on the same day.
- 4.5 Cabinet in asked to endorse the Business Plan for 2018/19.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

Legal – 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 financial statement for the period to 31 January 2018 shown in appendix 1 has been prepared by Financial Services. The proposed 2018/19 Business Plan in appendix 2, including the company's financial forecast and the Shareholder benefit for the financial year, has also been prepared in conjunction with Financial Services.

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

6 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 to 31 January 2018

The Company's draft profit and loss statement and balance sheet for the trading period to 31 January 2018.

Appendix 2 – Business Plan 2018/19

The Company's Business Plan for the period to end March 2019.