



OPORTUNITAS LIMITED

BUSINESS PLAN

2020-2022

UPDATED VERSION

24 AUGUST 2020

## **1. INTRODUCTION**

1.1 This document presents an updated version of the business plan for Oportunitas Limited, the Council's wholly owned housing and regeneration company, for the period 1 April 2020 through to 31 March 2022. The original version of the business plan was approved by the Board on 12 March 2020. This version updates the business plan to reflect the anticipated impact of Covid-19 pandemic crisis and other changes on the company's activities. In accordance with the Shareholder's Agreement, the business plan is required to be considered and approved by Cabinet, planned for 16 September 2020.

1.2 Following success in the trading period from its inception in September 2014 to March 2020, Oportunitas will:-

- continue to invest in a Housing Acquisitions & Rental Programme – a land and property acquisition and conversion/refurbishment programme to provide residential properties to let to families at rental levels at or just below market rates; and
- explore commercial investment opportunities in line with its objectives, where the financial returns required in the business plan can be demonstrated.

## **2.2 The Company's Objectives**

2.2.1 The objectives are set out in Schedule 4 of the Shareholder's Agreement. These objectives formalise the scope of the intended activities, and are stated as follows:

- To lead the co-ordination and brokerage of regeneration, economic and development activity;
- To acquire housing and property to make available housing for rent and sale on a range of tenures including (but not limited to) shared ownership, shared equity, market sale and rent, affordable rent;
- To lead site development activity including securing private investment interest where appropriate;
- Facilitating partnership development arrangements to bring forward housing and employment site opportunities across the district of Folkestone & Hythe, including where appropriate joint ventures with other organisations;

- To develop residential housing either for market rent or private sale or in partnership with a registered provider of social housing;
- To develop or hold commercial employment or industrial uses of land and buildings;
- To develop or carry out such infrastructure works as are required to deliver any development or project;
- To commission conversion, improvement works and any other professional services relating to the Business;
- To carry out such trading activities as are identified in the business plan, initially relating to grounds and parks maintenance; and
- To carry out such trading activities as the Council and the Company may agree from time to time.

### **3. STRUCTURE OF THE BUSINESS PLAN**

- 3.1 The rest of this document will review the company's activities undertaken to date and outline what is planned for the next two years.
- 3.2 Progress will be kept under review by the Board at regular intervals during the period of this business plan. If changes are necessary or amendments are made during this period the appropriate processes will be followed as laid out in the corporate control documents.
- 3.3 The final version of the business plan approved by the Board is required to be submitted to the Shareholder (Cabinet) for approval, expected to be the Cabinet meeting due on 16 September 2020.

### **4. BACKGROUND - ACTIVITY TO DATE**

#### **4.1 Housing Acquisitions, Conversions and Rental programme**

- 4.1.1 To date 11 properties have been acquired providing 38 units of residential accommodation and one commercial unit for rent. The commercial unit is contained within the ground floor level of one of the residential properties. Smith Woolley (SW) has been providing property search and assessment services and currently manage most of the properties. Reeds Rains also manage a couple of the first units acquired and, as these become available to re-let, the Board will consider their future management arrangements to ensure that the most advantageous arrangements are secured.

4.1.2 All rents have been set at a market level and acquisitions to date have been financed at a 90:10 loan to equity ratio. The original loan funding provided by the Council for acquiring properties to rent at market levels was at an interest rate of 4.88% (4% if the properties acquired were to be let at affordable rents).

4.1.3 Prior to the strategic financial review in 2018, covered in section 5 below, an initial £4.78m was approved by the shareholder to support the company and, to date, approximately £4.3m has been invested in the 11 properties acquired, including fees. In summary the property portfolio;

- is generating an average gross yield of 5.8%,
- has seen its value increase by 18.8% since acquisition to 31 March 2020,
- has seen its net value, after Stamp Duty Land Tax, increase by £547k since acquisition to 31 March 2020.

A detailed list of the property portfolio with valuations and yields is shown in appendix 1 to the business plan.

4.1.4 The property portfolio was revalued at 31 March 2020 by an independent RICS qualified valuer and this resulted in an average increase of 4.5% in its value over the year.

## 4.2 **Grounds Maintenance Activity**

4.2.1 The Company, since its inception in 2014 had offered a range of gardening and grounds maintenance services to both local residents and businesses that utilized the resources of the Council's Grounds Maintenance Unit as part of its diversified commercial offering. The following grounds maintenance services were agreed to be provided on behalf of the Company:

- Grass and hedge cutting
- Hanging baskets, annual flower, displays, shrub and rose beds
- Soft landscaping, including planting and turfing
- Sport pitch maintenance, including line marking
- Tree advice, management and associated works
- Weed killing including hard surface treatments and Japanese Knotweed treatment

4.2.2 However, changes to the demands on the Grounds Maintenance unit have meant a reduction in the capacity to provide this service and the overall long term commercial viability of providing these services against local competitors within the market has seen a realignment of grounds maintenance offering to broadly focus on tree-related work for external

customers. The Company will instead continue with its strategic focus on seeking out development and investment opportunities within the property market to generate greater commercial returns for the shareholder.

- 4.2.3 This change has resulted in a small reduction in the net income to the company of about £6,000 per year from these works. Additionally, the impact of Covid-19 has curtailed most of this work in the first half of 2020/21 and will see a further reduction in the net income of about £3,000. These changes are reflected in the financial position in section 4 below.

## 5 COMPANY FINANCIAL POSITION

### 5.1 Profit and Loss Account 2019/20 (Subject to Audit)

- 5.1.1 The table below summarises the company's Profit and Loss Account for the year to 31 March 2020 with comparative figures for the previous financial year and shows the accumulated trading loss, before adjustments for unrealised property valuation gains are reflected.

Table 1 Company's Profit and Loss Account

<u>Profit and Loss Account</u>	2018/19	2019/20
	£	£
<b>Housing Rental</b>		
Rental Income	238,997	250,075
Rental Expenses	<u>(63,415)</u>	<u>(87,105)</u>
Net	175,582	162,970
<b>Grounds Maintenance</b>		
Income	66,033	24,451
Expenses	<u>(58,109)</u>	<u>(17,480)</u>
Net	7,924	6,971
<b>Overheads</b>		
Directors Remuneration	(12,508)	(8,923)
FHDC Officer Support	(15,741)	(24,000)
Operating Expenses	<u>(20,383)</u>	<u>(16,170)</u>
Total Overheads	<u>(48,632)</u>	<u>(49,093)</u>
Loan Interest	(167,166)	(172,561)
<b>P &amp; L Operating Surplus / (Deficit) for period</b>	<u>(32,292)</u>	<u>(51,713)</u>
<b>P &amp; L Operating Loss b/f</b>	<u>(226,158)</u>	<u>(258,450)</u>
<b>P &amp; L Operating Loss c/f</b>	<u>(258,450)</u>	<u>(310,163)</u>

- 5.1.2 The company's full profit and loss account includes the unrealised valuation adjustments and any deferred tax liability arising from these. However, these items do not impact on the company's cash position and are excluded from the figures in Table 1, above.
- 5.1.3 Table 1 shows the company made an operating loss of about £51k in the year to 31 March 2020, subject to Audit. This means the accumulated operating loss is £310k. Although this may appear to be a cause for concern it is not unexpected. The point of the strategic financial review in early 2018 was to agree a way forward through additional investment which would allow the company to become financially sustainable over the medium term and to continue to provide a return to the Council.
- 5.1.4 In broad terms, the company's trading activities of residential property lettings and grounds maintenance cover their direct costs, including loan interest, but do not generate sufficient surpluses to meet its overheads.
- 5.1.5 The company's accounts are independently audited at the end of each financial year and have, so far, received an unqualified audit opinion to say they are a fair and accurate record of its financial activities.

## 5.2 Profit and Loss Forecast for 2020/21 & 2021/22

- 5.2.1 The company is expected to continue making losses over the next two financial years, again before any adjustment for unrealised property valuation changes. For 2020/21 the annual operating loss is forecast to be about £117k, reducing to £50k in 2021/22. This will leave the company with an accumulated operating loss £478k at 31 March 2022. Further detail of this shown in table 2 below:

Table 2 Forecast Profit and Loss Account 2020/21 and 2021/22

<u>Profit and Loss Account</u>	2020/21	2021/22
	£	£
<b>Housing Rental</b>		
Rental Income	264,114	405,383
Rental Expenses	<u>(93,936)</u>	<u>(135,755)</u>
Net	170,178	269,628
<b>Grounds Maintenance</b>		
Income	15,300	30,000
Expenses	<u>(12,240)</u>	<u>(24,000)</u>
Net	3,060	6,000
<b>Overheads</b>		
Directors Remuneration	(11,361)	(11,588)
FHDC Officer Support	(23,256)	(23,721)

Operating Expenses	<u>(47,534)</u>	<u>(23,138)</u>
Total Overheads	<u>(82,150)</u>	<u>(58,447)</u>
Loan Interest	(208,535)	(267,457)
<b>P &amp; L Operating Surplus / (Deficit) for period</b>	<u>(117,448)</u>	<u>(50,276)</u>
<b>P &amp; L Operating Loss b/f</b>	<u>(310,163)</u>	<u>(427,611)</u>
<b>P &amp; L Operating Loss c/f</b>	<u>(427,611)</u>	<u>(477,887)</u>
<b>Loan Repayments</b>		
Loan 1	(27,261)	(28,608)
Loan 2	0	0
Total Loan Repayments	<u>(27,261)</u>	<u>(28,608)</u>

5.2.2 During the period of this two year forecast the company will be making stage payments for the conversion and construction of further residential accommodation at the Royal Victoria Hospital (RVH) site in Folkestone, explained in more detail in section 5 below. During 2020/21 the company will incur additional interest and other finance costs of £62k which is the main reason for the increase in the projected loss.

5.2.3 In 2021/22 the company expects to start receiving the net benefit of the additional rental stream from phase one of the RVH scheme and this is the main reason for the reduction in the operating loss for the year to £50k.

5.2.4 Forecasts also predict the company will return an operating profit of about £15k in 2022/23 increasing to just about £80k in 2023/24, the first financial year it receives the full benefit from both phases of the investment in the RVH scheme. At this point the accumulated operating loss is projected to have reduced to about £384k and it is likely to take a further 4 to 5 years before this has been cleared.

### 5.3 Company Cash Flow Forecast

5.3.1 The Company's cash flow forecast for the period of the business plan to 31 March 2022 is shown in the table below:

**Table 3 Cash Flow Forecast**

	31/03/2020	31/03/2021	31/03/2022
	£'000	£'000	£'000
Cash b/f	47	207	228
Cap Ex - Claremont Rd Extension	(79)	-	-
Cap Ex - RVH	(1,275)	(3,725)	(1,700)
P & L net position	(51)	(117)	(50)
Net Movement Debtor/Creditors	15	-	-
Payment Accrued Interest	(458)	-	-
Main Loan Repayments	-	(27)	(29)
Drawdown Loan 1	778	-	-
Drawdown Loan 2	0	770	1,700
Working Capital Repayment	(80)	-	-
Equity	1,310	3,120	-
Cash c/f	207	228	149

5.3.2 The cash flow forecast demonstrates the company has sufficient cash resources available to it to meet its existing commitments and planned expenditure for the next two years including the investment in the RVH scheme totaling £6.7m. This position is based on the approved equity and loan funding package agreed by the Council in February 2018 as part of the strategic financial review of the company and outlined in more detail in section 5 below.

#### 5.4 Shareholder Benefit

5.4.1 The gross shareholder benefit to the Council from Oportunitas for the period from 2018/19 to 2021/22 is shown in the table below:



**Table 4 Shareholder Benefit**

	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Forecast	Forecast
	£	£	£	£
Interest received	-168,405	-172,561	-208,535	-267,457
Cost reimbursement				
Staff Cost	-15,741	-24,000	-23,256	-23,721
Members Allowances	-12,508	-8,923	-11,361	-11,588
Grounds Maintenance	-58,109	-17,480	-12,240	-24,000
Loan repayments	0	0	-27,261	-28,608
Total Return	-254,763	-222,964	-282,653	-355,374

## **6. FUTURE ACTIVITIES**

### **6.1 Strategic Financial Review Funding**

6.1.1 On 28 February 2018, Cabinet considered and approved a report regarding the future strategy for Oportunitas. This report included the outcomes of detailed strategic financial review of the level of investment required to make the company financially sustainable in the long term while still providing a return to the Council as the sole shareholder. In summary, the outcomes of this review in terms of the company were:

- £6.9m minimum additional capital investment required to acquire further residential properties to provide an enhanced revenue stream to trade sustainably;
- The overall debt to equity ratio required to be 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.

6.1.2 Subsequently, full Council approved the £6.9m additional capital investment as part of the update to the Medium Term Capital Programme.

## **6.2 Royal Victoria Hospital - Background**

6.2.1 The Royal Victoria Hospital (RVH) was originally established as a small general hospital containing administrative offices, general and private wards, designed by Joseph Gardner and opened in 1890.

6.2.2 The hospital has a local history of serving generations of Folkestone residents as voluntary and military hospital before becoming part of the National Health Service from 1948. In 1979, the introduction of the new William Harvey Hospital in Ashford saw gradual scaling down of NHS services provided at the RVH until the final wards in the main building closed in 2006. The 2.3 acre site on Radnor Park Avenue since closure has remained derelict and was purchased by Kent County Council from East Kent Hospitals University Trust before being sold on to a local developer in November 2018 that realises its wider regeneration and development potential.

## **6.3. RVH - The Proposal**

6.3.1 As part of the company's commitment to explore commercial opportunities in line with its wider business objectives, Oportunitas has been involved in negotiations to purchase 'off plan' from the developer at a cost of £6.45 million, the first two phases of the proposed RVH development that will incorporate:

- Phase 1: The regeneration and conversion of the existing hospital building into 18 units comprising of 15x 2 bedroom and 3x 1 bedroom apartments proposed for completion in summer of 2021. This will provide an additional gross rental of about £202k per year.
- Phase 2: A newly developed block adjacent to the existing hospital building of 19 units comprising of 17 x 2 bedroom and 2 x 1 bedroom apartments proposed for completion in the summer of 2022. This will provide an additional gross rental of about £207k per year.

6.3.2 The acquisition of both phases 1 and 2 of the completed scheme will generate an additional gross income of £407k per year which is a yield of about 6.4% on the investment. This yield is comparable with the existing property portfolio and in line with the company's target return.

6.3.3 Should there be a delay to the scheme or it takes longer than anticipated to let all the units on completion then this is likely to adverse effect on the profit and loss position for the company over and it will take longer to clear the accumulated losses outlined in section 4 above.

6.3.4 In addition to the projected financial benefits to the Company, the investment in the scheme secures a regeneration benefit to this locally significant Victorian building within central Folkestone and will

complement existing local regeneration projects, including the Radnor Park Lodge and Folkestone Harbour Arm as well as the Council's wider regeneration strategy for the future of Folkestone Town Centre.

## 7. RISK MATTERS

### 7.1 *Company Risks Identified*

7.1.1 Table 6 below presents a matrix style assessment providing a judgement on the combination of probability/likelihood of occurrence and severity of impact on the Company. All risks will be kept under review during the year.

<b>Table 6 Company risks - detailed assessment</b>				
<b>Company Risk</b>		<b>Prob-ability</b>	<b>Impact</b>	<b>Risk Management Action</b>
<b>LEGAL</b>				
A	Contractual Disputes	Low	Medium	Governance structures in place to ensure that contracts which require Council approval are considered appropriately. Oportunitas will take appropriate legal advice before entering into contracts.
B	The balance between Council control and the Company's ability to deliver against its Business Plan results in the Company's inability to operate effectively	Low	High	Detailed definitions contained within the key corporate governance documents mitigate against this risk. Board is given adequate decision-making powers and independence.
<b>LEGAL / FINANCE</b>				
C	Breach of EU state aid rules	Low	Medium	Independent legal advice sought when the company was established which confirmed Council's funding of the Company was compliant with state aid rules.
<b>FINANCE</b>				

D	The Company fails to adhere to loan repayment obligations	Low	Medium	A repayment schedule is prepared and financial matters are discussed regularly with the board. Quarterly reports are given to Cabinet.
E	Failure of housing to be competitive and/or attractive to tenants	Low	Low	The acquisition programme is professionally managed to ensure a competitive product is offered.
F	Rental income returns fall short of projections included in the Business Plan	Low	Medium	Rental values are kept under review and financial implications reported to the Board. Changes will be made to activities if necessary and appropriate returns are not made.
G	Failure to arrange adequate insurance cover for the Company's liabilities and assets	Low	Medium	The Council's Finance Team is has appropriate insurance in place. The Shareholders Agreement enables the Company to purchase and maintain adequate insurance against all risks comparable to that insured by companies carrying out similar business
H	Failure to arrange adequate insurance cover for the Company's Directors	Low	Medium	The Company has insurance in place for its Directors against any liability which may be incurred in relation to their role as Company Director
I	Challenge from auditors (Council or external)	Low	Low	The Company has appointed its own external auditors and accountant.
J	Failure to comply with taxation laws (Corporation Tax and VAT)	Low	Low	The company will take independent tax advice.
K	Properties decrease in value resulting in an impairment	Low / Medium	High	The Company Board will keep under review and if necessary will look at options such as changing the mix of portfolio, refinancing or sale of properties.
L	Movement in interest rates	Medium	Medium	The Business plan will take into account the likelihood of medium to long term increases in interest rates and the impact this will have on viability of future activities, adjusting activities accordingly.

<b>FINANCE / OPERATIONAL</b>				
M	Assumption of values for acquisition and refurbishment and rental yields proves to be inadequate	Medium	High	Need to regularly review the market conditions to ensure that the activity is managed within the overall budget envelope.
<b>OPERATIONAL</b>				
N	Mechanism for drawing down funding proves to be too slow and costly to facilitate delivery of acquisitions programme	Low	High	Facility is agreed for Council draw down process.
O	Higher level of voids than projected or rent arrears	Low	High	A void rate of 3% has been included in the Business Plan and will be regularly reviewed. Rent arrears kept under review with immediate action taken for non-payment.
P	Allowances for maintenance and repairs in the Business Plan prove to be inadequate	Low	Medium	This has been allowed for in the Business Plan and will be regularly reviewed.
Q	Conflict of interest over workload priorities of Council and Company	Low	Medium	Council will retain control over the staffing of the Company. Council resources will be invoiced to the Company.
R	Lack of capacity to manage the Company's workload	Low	Medium	Staff resources carefully managed and balance of staffing needs regularly reviewed, with flexibility retained to provide additional capacity as required.
S	The Company is inadequately resourced in terms of management, accounting, legal and admin	Low	Medium	As above.

<b>PROCUREMENT</b>				
T	Failure to adhere to EU procurement rules	Low	Low	Procurement rules transferred to the Company from the Council including the use of approved procurement frameworks.
<b>OTHER</b>				
U	Conflict of interest for members acting as Directors of the Company	Low	Medium	In accordance with the Council's constitution dispensations have been granted to Councillors allowing them to speak and vote at meetings where Company affairs are being discussed.
V	Company strays beyond its objectives	Low	High	Objectives clearly defined within governance documents and protected by annual Council approval of the Company's rolling Business Plan.
W	Inaccuracy in stock condition information on the properties prior to acquisition leading to unexpected maintenance costs	Low	Medium	Detailed stock condition information acquired prior to acquisition. Surveys undertaken as needed to ascertain expected maintenance costs.
X	Inclusion of trading activities weakens the Company's strategic focus	Low	Medium	The Company will provide mechanism for invoicing private work and will not detract from the strategic objectives of the Company's programme of activities.

## Appendix A: Scheme of Delegation & Financial Thresholds –

Board decisions need to be taken in a timely manner to pursue property purchases. The financial delegation thresholds are included as per the Shareholder's Agreement with financial delegations for works, supplies and services aligned with existing FHDC thresholds:

### Works, Services & Supplies:

Total Value	Type of Contract	Procedure
£1,000 to £9,999	Works, supplies and services	At least one quote to be obtained in advance
£10,000 to £99,999	Works, supplies and services	At least three quotes to be obtained in advance
100,000to £164,175	Works, supplies and services	At least three written tenders in advance following advertisement by public notice.
£164,176	Supplies and services	EU rules apply.
£164,176 to £4,104,393	Works	Full competitive process with tenders following advertisement by public notice
£4,104,394 plus	Works	EU rules apply

### Property Acquisitions:

Total Value	Type of Contract	Procedure
£0 to £150,000	Purchase of property	Officer decision in consultation with a senior director, subsequent notification of the purchase to the Board
£150,001 to £250,000	Purchase of property	Officer recommendation with sign-off by two senior directors, subsequent notification of the purchase to the Board

£250,000 and over	Purchase of property	Board decision.
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Note: 'Officer' of the Council is seconded to work for the company via the SLA, they then effectively have the powers and delegations given to them through the company's governing documents, including the Shareholder's Agreement. This should then be sufficient to enable an officer acting on behalf of the Company to agree to purchase a property in accordance with the above table.

### **Delegations / Authorised Signatories**

Delegation levels will be established for key Company staff (and FHDC Officers delegated to support the Company) and Board members and included in the Shareholder's Agreement.

Proposals are that signing authorities will be:

- Cheques and other bank payments up to £10,000 - FHDC Officer with delegated authority;
- Cheques and other bank payments £10,000 and over - Senior Director, or FHDC Officer with delegated authority;
- All external contracts – Chairman or Senior Director;
- Approval of Purchase Orders - FHDC Officer with delegated authority;
- Approval of Purchase invoices up to £10,000 - FHDC Officer with delegated authority;
- Approval of Purchase invoices £10,000 and above – Senior Director, or FHDC Officer with delegated authority;
- Loan Agreements – Chairman or Senior Director; and
- Funding Agreements – Chairman or Senior Director.