Appendix 2 – Oportunitas Business Plan 2023/24

Oortunitas Board Meeting 6 March 2023

Oportunitas Limited – Business Plan 2022/23

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Summary: This paper presents a Business Plan for Oportunitas Limited for the 2023/24 financial year and provides an indicative financial forecast for the 2024/25 financial year. The preparation of an annual business plan, in advance of the financial year, is a requirement of the Shareholder's Agreement with the Council. The business plan is required to be submitted to the Shareholder for approval.

Recommendations:

The Board agree the Business Plan for the 2023/24 be submitted to the Shareholder for approval.

1. INTRODUCTION

1.1 This document presents a business plan for Oportunitas Limited, the Council's wholly owned housing and regeneration company, for the period 1 April 2023 through to 31 March 2024 and an indicative financial forecast for the financial year to 31 March 2025. Following success in the trading period from its inception in September 2014 to March 2023, 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 local people at rental levels at market rates, and

- explore commercial investment opportunities in line with its objectives, where the financial returns required in the Business Plan can be demonstrated.

1.2 The Company's Objectives

1.2.1 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.

1.3 Capital Funding Structure

1.3.1 Cabinet approved a revised capital funding structure for the company on 28 February 2018 which resulted in a debt to equity ratio of 58%:42%, summarised below:

	Debt £m	Equity £m	Total £m
Phase 1	4.31	0.48	4.79
Phase 2	2.47	4.43	6.90
Total	6.75	4.91	11.69
Ratio	58%	42%	

1.3.2 The capital funding structure was set to allow the company to become financially sustainable in the long term while providing a suitable return to the Council as the shareholder. As part of this, the debt funding was agreed at a market interest rate of 4.88%. Additionally as part of the funding agreement, a short-term loan facility of up to £0.3m was made available to the company to help manage its cash flows.

1.3.3 The phase 1 funding was fully utilised towards the cost of acquiring the company's original property portfolio of 38 residential units and 1 commercial unit up to 2018. The phase 2 funding is currently being used towards the acquisition of a further 37 units of residential property at the site of the former Royal Victoria Hospital (RVH) site in Folkestone, covered in more detail later in the Business Plan.

2. STRUCTURE OF THE BUSINESS PLAN

2.1 The rest of this document will review the company's activities undertaken to date and outline what is planned for the next financial year.

2.2 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.

2.3 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 22 March 2023.

3. BACKGROUND - ACTIVITY TO DATE

3.1 Housing Acquisitions and Rental Programme

3.1.1 Prior to the RVH investment, the company owned 38 residential units and one commercial unit which were providing it with the majority of its revenue. The 37 units being acquired at the RVH development mean the company expect to own 76 units in total by the end of 2023.

3.1.2 Smith Woolley are the company's managing agent for all bar two of the company's residential properties, with Reeds Rains being the managing agent for the other two.

3.2 Royal Victoria Hospital

3.2.1 As part of the company's commitment to explore commercial opportunities in line with its wider business objectives, Oportunitas committed to purchase 'off plan' from the developer at a cost of £6.45 million, the two phases of the proposed RVH development incorporating:

- Phase 1: The regeneration and conversion of the existing hospital building into 18 units comprising of 15x 2 bedroom and 3x 1 bedroom apartments.

- 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.

3.2.2 Phase 1 of the development to convert the existing hospital building into 18 high quality residential units was completed and successfully transferred to company from the developer at the end of October 2021. All units were initially successfully let by December 2021 and are managed by Smith Woolley. This phase of the development now provides the company with an additional gross rental of about £216k per year, a yield of 6.8% against the purchase price.

3.2.3 The company's main focus for this business plan over the next twelve-month period is the delivery of phase 2 of the RVH development to bring forward a further 19 high quality units into the company's portfolio. The previous business plan anticipated this phase would be completed and let by December 2022. However, as previously reported to the

Board, the contractor has experienced delays due, in part, to labour and materials shortages and prioritising work to the adjacent development for the Council's Housing Revenue Account new build scheme, which mean the completion of phase 2 is now expected for autumn 2023 with units let by December 2023.

3.2.4 This delay has had an adverse effect to the company's net financial position estimated to be approximately £82k over 2022/23 and 2023/24 compared to the previous business plan, outlined to the Board on 22 November 2022. Should there be any further delay to phase 2 of 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 and it will take longer to clear the accumulated losses outlined in section 4, below.

3.2.5 The acquisition of phase 2 of the completed scheme will generate an additional gross income of £214k per year which is a yield of about 6.5% on the investment. This yield is comparable with the existing property portfolio and in line with the company's target return.

3.2.6 In addition to the projected financial benefits to the company, the investment in the scheme continues to secure a regeneration benefit to this locally significant site within central Folkestone and will complement the Council's ambitious vision set out within its approved Place Plan for the future of Folkestone Town Centre.

3.3 Stock Condition Survey of the existing portfolio and EPC ratings

3.3.1 The proposed budget for 2023/24 includes £20k towards the cost of undertaking of a full stock condition survey on its portfolio to establish a detailed understanding of the general condition of its properties, deferred from 2022/23. The survey will enable the company to establish a longer-term plan for property maintenance as well as forecasting the future investment required.

3.3.2 Two properties within the portfolio are likely to require significant external maintenance and preventative work over the next couple of years – 82/84 Leyburne Road, Dover and 19 Castle Hill Avenue, Folkestone. £64k has been provided over 2023/24 and 2024/25 for the cost of these works. This work is expected to be subject to the outcome of the stock condition survey. Formal quotes will be obtained ahead of committing to the works.

3.3.3 The company will work towards ensuring that all properties within the portfolio achieve a minimum of an EPC grade C by 2030 in line with the Council's own HRA stock. The results of current EPCs will also be captured as part of a future stock condition survey undertaken and will provide the company with a baseline to then determine a future programme of priority of works for the retrofitting and upgrading of properties within the portfolio to ensure they meet the highest standards of energy efficiency.

3.4 Property Portfolio Value and Yield

3.4.1 In summary the current property portfolio;

- has its rents set a market rates,
- is generating an average gross yield of 5.5%,
- has seen its gross value increase by 18.8% or £1.628m since acquisition to 31 March 2022,

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

3.4.2 The property portfolio is in the process of being revalued at 31 March 2023. Although, at the time of writing, these valuations are not available, HM Land Registry data for 2022 shows local residential property prices have seen an average increase of about 12% for year to 31 December 2022. The latest valuation of the company's portfolio as at 31st March 2022 valued the company's portfolio at over £9.1million.

3.5 Grounds Maintenance Activity

3.5.1 The company, originally offered a wide 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 company's previously approved business plan (2020-22) reflected a realignment of this service due to 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. The service has continued to focus on offering tree related work to external customers, which has allowed the company more widely to focus on seeking out development and investment opportunities within the property market to generate greater commercial returns for the shareholder. The service is projected to generate the company a net return of about £3k per annum.

4 COMPANY FINANCIAL POSITION

4.1 Current Position

4.1.1 The company's Balance Sheet to 31 March 2022 shows an accumulated profit of £908k. However, after excluding the unrealised property valuation gain of £1,628k and a deferred Corporation Tax provision of £242k, the accumulated operating loss since inception is £478k. As already reported to the Board earlier on today's agenda, the operating loss is projected to reduce by a £81k to £397k in the year to 31 March 2023.

4.1.2 Although the level of operating loss may appear concerning it is not unexpected. As the Board is aware, the company expected to continue to make an operating loss until it received the full benefit of the net revenue stream from its investment in the RVH scheme, now expected from 2024/25. The previous Business Plan forecast the accumulated operating loss to be about £472k at 31 March 2023. The main reason for the reduction of almost £84k in the loss to £388k is due to major repairs and stock condition survey now due to be carried out in 23/24.

4.2 Profit and Loss Projection for 2023/24 and Initial Forecast for 2024/25

4.2.1 The company is expected to make an operating loss of about £50k in 2023/24 before it is forecast to return a profit after tax of about £40k in 2024/25, the first year it is expected to receive the full benefit of its investment in the RVH scheme. This will leave the company with an accumulated operating loss £406k at 31 March 2025. Further detail of this shown in table 1 below:

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Table 1 Forecast Profit and Loss Account 2023/24 and 2024/25

Profit and Loss Account	2023/24 Budget £	2024/25 Forecast £
Housing Rental		
Rental Income	562,830	704,908
Other Income	0	0
Rental Expenses	(239,278)	(268,536)
Net	323,552	436,372
Grounds Maintenance		
Income	10,167	10,371
Expenses	(8,134)	(8,297)
Net	2,033	2,074
Overheads		
Directors Remuneration	(11,878)	(12,116)
FHDC Officer Support	(28,560)	(29,131)
Operating Expenses	(27,409)	(24,835)
Total Overheads	(67,847)	(66,082)
Loan Interest	(307,376)	(323,083)
P & L Operating Surplus / (Deficit) for period	(49,637)	49,281
Corporation Tax	-	(9,363)
P & L Net Operating Surplus / (Deficit) for period	(49,637)	39,918
P & L Operating Loss b/f	(396,714)	(446,351)
P & L Operating Loss c/f	(446,351)	(406,434)

4.2.2 The budget for 2023/24 and 2024/25 includes provision for the following special items within the housing rental expenses:

		£
i)	External redecoration and repairs to 19 Castle Hill Avenue (costs profiled equally 23/24 & 24/25)	35,200
ii)	External redecoration and repairs to 82/84 Leyburne Road (costs profiled equally 23/24 & 24/25)	29,100
iii)	Stock condition survey (23/24)	20,000
	Total special items	84,300

4.2.3 **Land Disposal** - The legal agreement between the Council and Oportunitas requires proceeds from the company's property sales to be paid to the council unless otherwise agreed. The existing business plan for 2022/23, which Cabinet approved on 23 March 2022, made reference to the company retaining the £60k receipt from the sale of surplus land at 84 Leyburne Road, Dover to help meet the cost of the special items outlined above. However, Cabinet decided at its meeting on 25 January 2023 the receipt should be paid to the Council in line with the shareholder agreement. The impact of this decision means the company will have to spread the major works planned for 19 Castle Hill Avenue and 82/84 Leyburne Road over the next two financial years rather than undertaken them together in 2023/24 to ensure it has the resources available to meet the cost.

4.2.4 It remains the company's aim to reduce its accumulated operating loss over time and to generate a return a surplus that could allow it to make a dividend payment to the Council as its shareholder or consider further property investments. Indicatively it may take between 6 to 8 years to offset the accumulated operating loss. However, this will be dependent on the outcome of the stock condition survey in particular.

4.3 Company Cash Flow Forecast

4.3.1 The company's cash flow forecast for the period of the business plan to 31 March 2024 and the year after is shown in the table below:

Table 2 Cash Flow Forecast

	31/03/2023 £'000	31/03/2024 £'000	31/03/2025 £'000
Cash b/f	32	86	6
Acquisition RVH	(1,500)	(970)	0
P & L net position	81	(50)	40
Loan Repayments	(27)	(30)	(32)
Loan Funding	1,500	970	-
Equity Funding	0	-	-
Cash c/f	86	6	15

4.3.2 The cash flow forecast demonstrates the company can just about meet its existing commitments and planned expenditure for the next two years, including the investment in the RVH scheme, without having to call upon the £0.3m short-term loan facility available to it from the Council. However, should there be significant additional expenditure and/or reduction in income over the forecast period, then the facility will have to be utilised in part.

4.4 Shareholder Benefit

4.4.1 The net shareholder benefit to the Council from Oportunitas for the period from 2022/23 to 2024/25 is shown in the table below:

Table 3 Shareholder Benefit

	2022/23 Budget £	2022/23 Projected Outturn £	2023/24 Budget £	2024/25 Forecast £
Interest received	(286,296)	(242,142)	(307,376)	(323,083)
Loan repayments	(37,792)	(30,021)	(31,504)	(48,005)
Sale proceeds	-	(60,000)	-	-
Cost reimbursement				
Staff Cost	(28,000)	(28,000)	(28,560)	(29,131)
Members Allowances	(11,645)	(10,023)	(11,878)	(12,116)
Grounds Maintenance	(12,240)	(6,000)	(8,134)	(8,297)
Total Return	(375,973)	(376,186)	(387,452)	(420,631)
Total Capital Financing Cost	119,100	332,600	500,208	525,327
Net return	(256,873)	(43,586)	112,756	104,696

4.4.2 As the table above shows, the net return to the Council is expected to change from a budgeted surplus of 256k in 2022/23 to a deficit of £113k in 2023/24. The Council has used prudential borrowing for the £6.9m investment in the company for the RVH development and, unfortunately, interest rates have risen over the past year leading to the increase in capital financing costs above. Previous modelling had assumed the Council's borrowing cost at an average rate of 1.5% whereas this is now at 4.5%. Additionally, the capital financing cost to the Council includes the statutory Minimum Revenue Provision (MRP) charge required to be made on capital expenditure met from borrowing. The previous business plan assumed MRP on the prudential borrowing incurred for the RVH scheme would be applicable from 2023/24, however this is required to be made from 2022/23 and £221k is included in the projected outturn for the year.

4.4.3 The company currently has an unrealised valuation gain of about £1.6m from its property portfolio. As with the sale of the land at Leyburne Road last year, proceeds from the sale of any property by the company, after tax and fees, are paid to the Council. Therefore, the increase in the market value of the property portfolio provides the Council with security over its investment in the company.

5. FUTURE ACTIVITIES

5.1 At this stage the company remains focused on completing the acquisition of phase 2 of the RVH scheme to enable it to become financially sustainable in the long term. The outcome of the stock condition survey will help to inform a longer term repairs, maintenance and improvements programme for the company. It may also help to inform on whether the company should consider reviewing its property portfolio in the longer term to ensure it continues to deliver an optimum financial return.

5.2 By the end of the next Business Plan period the company will have been in existence for 10 years. Once the second phase of the RVH scheme is completed it would be prudent for both the company and the Council, as the shareholder, to consider the future role and direction to be taken, including the financial benefit to both parties.

6. RISK MATTERS

6.1 *Company Risks Identified*

6.1.1 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.

Table 6 Company risks - detailed assessment

Company Risk		Prob-ability	Impact	Risk Management Action
LEGAL				
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.
LEGAL / FINANCE				
C	Breach of the Subsidy Control Act regarding the subsidy control in the public sector (previously governed by 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. The Council's funding of the Company remains compliant with the subsidy control commitments and will be reviewed again once the Subsidiary

				Control Bill is enacted and the guidance notes produced.
FINANCE				
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.
FINANCE / OPERATIONAL				
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.
OPERATIONAL				
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	Medium	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	Price inflation for repairs, maintenance and operational costs of housing portfolio	Medium	Medium	Partly mitigated from ongoing review of rents. From 2024/25 company expected to return a profit and have increased financial capacity to meet inflationary cost pressures.
Q	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.
R	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.
S	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.
T	The Company is inadequately resourced in terms of	Low	Medium	As above.

	management, accounting, legal and admin			
PROCUREMENT				
U	Failure to adhere to the Public Procurement Amendment etc) (EU Exit) Regulations 2020	Low	Low	Procurement rules transferred to the Company from the Council including the use of approved procurement frameworks.
OTHER				
V	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.
W	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.
X	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.
Y	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.