



Report Number **C/23/69**

To: Cabinet
Date: 13 December 2023
Status: Non-Key Decision
Director: Andy Blaszkwicz, Corporate Director – Housing & Operations
Oportunitas Chair: Councillor James Butcher

SUBJECT: OPORTUNITAS PROGRESS REPORT 2023/24 To 31 October 2023

SUMMARY: This report provides an update from the Board of Oportunitas Ltd (“the company”) on activities undertaken so far during the 2022/24 financial year, including a projected outturn for the profit and loss account for the period to 31 March 2024 compared to the original forecast, based on activity to 31 October 2023. The report also outlines the company’s audited Statement of Accounts for the financial year ending 31 March 2023. This report is in-line with the requirement contained in the Shareholder’s Agreement between the company and the Council. The Chair of Oportunitas will be available at the meeting of Cabinet to present the report and to address any questions.

REASON FOR RECOMMENDATIONS:

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

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

RECOMMENDATIONS:

1. To receive and note report C/23/69.
2. To note the Full Statement of Accounts and Directors’ Report for the financial year ending 31 March 2023.
3. To note the latest projected outturn for the Profit and Loss Account of Oportunitas Limited for the financial year ending 31 March 2024.

1. BACKGROUND

- 1.1 The report sets out the company's current progress in 2023/24 in relation to its investments and trading activity, based on activity to 31 October 2023, and is a requirement of the Shareholder's Agreement between the company and the Council. Cabinet considered the previous progress report for the company on 22 September 2023, based on activity to 31 August 2023.
- 1.2 The report sets out the company's audited Statement of Accounts for the financial year ending 31 March 2023 and outlines the changes from the provisional outturn position reported to Cabinet on 18 October 2023.
- 1.3 The report also provides a financial update for the current year including the latest projected outturn for the company's profit and loss account for the financial year ending 31 March 2023 compared to the original forecast for the year which was set as part of the current approved Business Plan. The financial update includes the latest position regarding the company's expenditure and funding for the acquisition of residential properties at the Royal Victoria Hospital (RVH) site in Folkestone.

2 INVESTMENT PORTFOLIO UPDATE

2.1 Property Portfolio

- 2.1.1 The company's current property portfolio remains at 75 residential units and 1 commercial unit, summarised in the table below:

Address	Units	Type
Walter Tull Way, Folkestone	5	2 x 1 bed units 2 x 2 bed units 1 x 3 bed unit
2 Grove Terrace, Dover Road, Folkestone	1	1 x 4 bed unit
15 Grace Hill, Folkestone	5	5 x 1 bed units
15 Grace Hill, Folkestone	1	1 x commercial unit
82 - 84 Leyburne Road, Dover	8	8 x 2 bed units
19 Castle Hill Avenue, Folkestone	10	9 x 1 bed units 1 x 2 bed unit
84 Sidney Street, Folkestone	4	3 x 1 bed units 1 x 2 bed unit
1 Claremont Road, Folkestone	5	5 x 1 bed units
10 Radnor Park Avenue, Folkestone (Royal Victoria Hospital – Phase A)	18	15 x 2 bed units 3 x 1 bed units
8a Radnor Park Avenue, Folkestone (Royal Victoria – Phase B)	19	17x 2 bed units 2x 1 bed units
Total	76	

2.1.2 All existing residential properties (not including RVH 2) are currently tenanted with the exception of one unit at Leyburne Road in Dover that at the time of writing this report is currently in the process of being let subject to tenant referencing. Where vacancies have occurred the company's agents have worked hard to minimise void periods. The company uses Smith Woolley as its main managing agent for the property portfolio. Management of all the assets within the company continue to be kept under regular review. The commercial unit at 15 Grace Hill, Folkestone is currently vacant due previous substantial damage following a leak from the flat above, at the time of writing this report, the ceiling debris has now been cleared and quotations are being sought by the managing agent from contractors for repairs to the ceiling and replacement of the floor within the unit to a screed flooring type. The company as previously reported will be covering the cost of the repairs which is estimated to be £25k in order to bring the unit back into a rentable condition following an unsuccessful claim with the insurance company.

2.1.3 The company continues to maintain a property safety register to document key areas of safety compliance across its property portfolio including, but not limited to, gas, fire, electrical and legionella. The register is continually reviewed with both managing agents and then shared with the Board members each month. The October 2023 position of the register identifies no compliance issues within the portfolio.

2.2 Tenant Rental Arrears

2.2.1 At 31 October 2023 the property portfolio has tenant rental arrears of £14.2k for its property portfolio, a slight decrease of £300 compared to the previously reported total of £14.6k at 30 September 2023. The company has made good progress in continuing to reduce tenant rental arrears over the past two years where at 31 October 2020 the total figure originally stood at £23.4k.

2.2.2 There are eight tenants with rental arrears of one month or more as at 31 October 2023 and the managing agent is working closely with those tenants to actively reduce this. £5.5k arrears relates to one tenancy. In this case, the managing agent is in regular contact with the tenant who is currently paying their basic monthly rent and making additional payments towards their arrears through a debt management plan. The position continues to be closely monitored for all the arrears and action may be taken by the company, using the Council's Legal Services team in conjunction with the managing agents, in-line with the company's Debt Management Policy.

2.3 Royal Victoria Hospital (RVH)

2.3.1 Work on Phase 2 of the RVH Development to bring forward a further 19 units in a new four storey block of flats adjacent to the former RVH building, has now completed. The block comprising one- and two-bedroom units was legally handed over to the company on 13th October 2023.

2.3.2 The marketing strategy worked up to showcase the 19 Phase 2 units, along with two open days to generate interest from prospective tenants was undertaken by the managing agent (Smith Woolley). The online marketing of the units commenced on the day of completion and two open days were hosted on 21st and 28th October 2023. The new units have been positively received in the marketplace and at the time of finalising this report (w/c 23rd November 2023), the managing agent has confirmed the successful letting of all 19 units. Tenants begun moving into the new units at the end of October with the final tenants due to move in at the beginning of December.

2.3.3 The 19 units were all advertised at market rents ranging from (£800- £1,075 per calendar month). The agent has successfully secured full market rents on all units that will achieve a monthly rental income of £19,315 for the company.

2.4 Financial Review of the Company

2.4.1 Officers are commissioning external consultants to review the financial structure of the company to inform future decisions and the next business plan. The review will consider how the company is funded and the current financial performance. A scoping paper was presented at the last board meeting in November highlighting the scope of the review that will take into consideration the following:

- Financial viability of the company and due diligence.
- Assessment and modelling of profitability/breakeven.
- Assessment of leverage, Debt: Equity ratio, including options for the restructure of debt and identification of potential debt cost savings.

2.4.2 Quotations for external consultants to undertake this financial review have been received and are being reviewed by finance officers within the company with a further update on the work to be circulated in advance of the next company board meeting scheduled for February 2024. The board agreed that this can be funded either from operating profit (preferred option) or the £20k that has been budgeted for the stock condition survey. The stock condition survey will be re-profiled to 24/25 once the financial review has been completed.

3. FINANCIAL OUTTURN TO 31 MARCH 2023

3.1 The company's provisional financial outturn for the year ending 31 March 2023, subject to Audit, was considered by Cabinet on 18 October 2023. The Board considered and approved the company's audited statement of accounts at its meeting on 22 November 2023. A copy of the outturn report to the Board and the full Statement of Accounts and Directors' Report for the financial year ending 31 March 2023 are shown in appendices 1 and 2 respectively to this report. The main changes made to the audited outturn compared to the provisional position reported in October are outlined below.

3.2 **Profit and Loss Account – Appendix 1** shows the profit after tax is £304,859 (equals operating surplus £48,440 plus unrealised property revaluation gains of £369,250 less corporation tax liability of £112,831), an increase of £134,585 compared to the provisional figure of £439,443. The reasons for this increase are summarised below:-

Adjustment	Amount (£)
i) A reduction in income	6,586
ii) Deferred Corporation Tax liability applicable for the year	112,831
iii) Accrued loan interest	35,631
iv) A reduction in operating expenses	(20,563)
Total adjustment	134,585

3.3 Further information regarding these changes is contained in appendix 1.

3.4 The full Statement of Accounts shown in **appendix 2** has been submitted to Companies House as a matter of public record.

3.5 Audit Opinion – It is pleasing to note the Auditor has given an unqualified opinion of the company's accounts for the financial year.

4. FINANCIAL UPDATE FOR 2023/24

4.1 The company's latest financial update for 2023/24 was reported to the Board on 22 November 2023 and a copy is shown in **appendix 3** to the report. The update shows the latest projected outturn for the profit and loss account compared to both the original forecast and previous projection for the current financial year to 31 March 2024 together with the latest position for the RVH scheme.

4.2 In summary, the company's profit and loss account is projected to make an operating profit of approximately £94k for the year, an increase of £145k compared to the original forecast operating loss of £51k. The profit is approximately £60k more than previously projected to the Board on 22 September 2023. The main reason for the projected increase in the operating profit is that repayments for the loan for RVH2 will not become repayable until 24/25 resulting in a saving on the interest of £103k that was due to be paid in 23/24. Additional rental income will be £232k in 24/25.

4.3 The company's property portfolio will be revalued as at 31 March 2024 ahead of finalising the accounts for the financial year.

4.4 The table below summarises the latest position for capital expenditure incurred on the RVH development:

	Phase 1	Phase 2	Contract Total	SDLT	Total
	£m	£m	£m	£m	£m
Agreed Sale Price	3.150	3.300	6.450	0.250	6.700
Paid to date	3.150	3.300	6.450	0.211	6.661
Balance	-	-	-	0.039	0.039

4.5 The funding of the capital expenditure incurred to date has been met from the proceeds of the Council's additional investment of £4.43m in the company and £2.1m of the agreed loan facility of £2.47m. Phase 2 of the RVH development completed on the 29 September 2023. The remainder of the loan facility will be drawn down by 31 March 2023. Interest will accrue on this loan and become payable from 1 April 2024.

4.6 The latest projected net financial benefit to the Council from the company in 2023/24 compared to the original estimate is shown in the table below:

	Estimate 2023/24 £'000	Projection 2023/24 £'000
Loan interest	309	205
Loan repayments	32	32
Staff costs - reimbursement	29	29
Members Allowances - reimbursement	12	12
Grounds Maintenance recharge	8	8
Total Benefit	390	286
Less, FHDC capital financing cost	(500)	(500)
Net Financial Deficit	(111)	(214)

4.7 The reduction in the benefit of £103k to the Council is due to the loan interest repayments for RVH2 not being due to start being repaid until 24/25 due to the delay in completion of the scheme.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

- 5.1 **Legal (NM)** – 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 in the Localism Act 2011. The company model provides a 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.

- 5.2 **Finance (DL)** – This report has been prepared in conjunction with Financial Services and there are no further comments to add.
- 5.3 **Equalities (GE)** – There are no diversity or equalities implications arising from this report.
- 5.4 **Climate Change (OF)** - There are no climate change 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:

Daniella Loxton, Senior Finance Specialist (Capital and Treasury)
Telephone: 01303 85 3583
Email: daniella.loxton@folkestone-hythe.gov.uk

Gavin Edwards, Board Administrator (Oportunitas Ltd)
Telephone: 01303 853436
Email: gavin.edwards@folkestone-hythe.gov.uk

Appendices:

Appendix 1: Oportunitas Ltd Board Meeting 23 November 2023 – Board Paper
Oportunitas Ltd Audited Statement of Accounts to 31 March 2023

Appendix 2: Oportunitas Ltd Statement of Accounts and Directors' Report for the financial year ending 31 March 2023

Appendix 3: Oportunitas Ltd Board Meeting 23 November 2023 - Financial Update Report for 2023/24