



This Report will be made public on 9 March 2021

Report Number **C/20/79**

To: Cabinet
Date: 17 March 2021
Status: Non-Key Decision
Head of Service: Andy Blaszkowicz – Director of Housing and Operations
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: OPORTUNITAS LIMITED UPDATE TO 31 JANUARY 2021

SUMMARY: This report provides an update from the Board of Oportunitas Limited (the company) on its activities undertaken so far in the current financial year to 31 January 2021, outlines its latest projected financial outturn for 2020/21 and summarises the financial benefit to the Council as Shareholder of the company. This report is a requirement of the Shareholder Agreement between the Council and the company. The Chairman of Oportunitas will be available to present the report and to address any questions from Cabinet.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because Oportunitas Limited is required to provide Cabinet with regular updates of its financial position and activities under the Shareholder Agreement with the Council.

RECOMMENDATIONS:

1. To receive and note report C/20/79.

1. INTRODUCTION AND BACKGROUND

- 1.1 In line with Shareholder Agreement between the Council and Oportunitas Limited (the company), this report provides an update on the company's activities and financial position for 2020/21 to 31 January 2021, including its latest projected financial outturn for the current financial year. This report also summarises the projected financial benefit to the Council from its relationship with the company for the current financial year.
- 1.2 This report builds on the previous Oportunitas update report which Cabinet considered and noted on 9 December 2020 (Report no. C/20/57 refers).
- 1.3 Cabinet is reminded that the company's approved business plan for the current period projected a loss of £117k for the year to 31 March 2021. The business plan also forecasts the company's financial position will begin to improve as the additional rental income from the planned new units from the Royal Victoria Hospital development is received, projected for the summer of 2021.

2. TRADING UPDATE

2.1 Property Rental

- 2.1.1 The company has continued to generate most of its revenue from the rental streams from its property portfolio of 38 residential units and 1 commercial unit, in-line with its approved business plan for the year. To 31 January 2021 the total rental income is £212k. The company uses Smith Woolley as the managing agent for the majority of its residential property with just two units being managed under a separate agreement with Reeds Rains.
- 2.1.2 At the time of writing, 34 units are tenanted with 2 in the process of being re-let to new tenants. However, there are a further 2 units where extensive repairs have had to be undertaken and both of these remain empty but should be available for letting in the near future.
- 2.1.3 **Rental Arrears** - At the 31 January 2021 the rental arrears owed to the company is £21k, broadly unchanged from the previously reported figure to 30 September 2020. The company's debt control process for managing its rental arrears was outlined in the previous Oportunitas update report to Cabinet on 9 December 2020. The company is continuing to work closely with its managing agents to apply and enforce its debt control procedures to reduce the level of arrears. Legal Services served notice to evict one of the tenants in January 2021 although it may take 3-6 months to finally evict the tenant (on the basis that the court makes the Order). Legal Services will be seeking a Fixed Possession Order with a money judgement and will continue to pursue the tenant and guarantor in order to recover the arrears.
- 2.1.4 **Property Safety Register** – The company maintains a register to ensure compliance with key property safety measures including, but not limited to, gas, fire, electrical and legionella. The register is continually reviewed with the managing agents and shared with Board members on a monthly basis.

The register to January 2021 identifies all required checks have been made and there are no non-compliance issues for the property portfolio to report.

2.2 Grounds Maintenance

2.2.1 It has already been agreed as part of the approved business plan to reduce the grounds maintenance service offered by the company, in part to reflect the limited capacity available within the Council's Grounds Maintenance team who act as the contractor to the company.

2.2.2 The reduction in the service offered coupled with the impact of Covid-19 has limited the gross income from the grounds maintenance service to about £7.5k for the period to 31 January 2021. However, the net impact of the reduction in income, after allowing for the contractor's cost, is not having a material impact on the company's profit and loss account.

3. FINANCIAL UPDATE 2020/21

3.1 The company's latest financial update for the current financial year, based on income and expenditure to 31 January 2021, was reported to the Board on 23 February 2021 and is shown in the appendix to this report.

3.2 In summary, the company has made an operating loss of £43k to 31 January 2021, which is in line with expectations, and full year projections remain on track for the council to receive £302k of income for 20/21 (as per paragraph 3.6 below).

3.3 The latest projected outturn for the financial year to 31 March 2021 shows an operating loss of almost £109k and is broadly consistent with both the original forecast for the year and the previous projection reported to the Board on 16 November 2020. The projected outturn includes one-off costs to be incurred or accrued by 31 March 2021.

3.4 Although there is a projected reduction in housing rental income and an increase in the bad debts provision, there are compensating savings in the housing rental expenses and overhead costs to offset these.

3.5 Former Royal Victoria Hospital Development –The developer is currently working on phase A of the scheme covering the redevelopment of the former hospital building itself into 18 flats. Phase A is expected to be handed over to the company by the autumn of this year, about two months later than forecast in the business plan. Phase B of the development for 19 purpose built flats is due to be completed by the summer of 2022. The cost of investment into the scheme is being met from the equity (£4.43m) and loan funding (£2.47m) approved by the Council to the company.

3.6 The projected financial benefit to the Council from the company in 2020/21 is shown in the table below:

	£'000
Loan interest	209
Loan repayments	27
Loan arrangement fee	25
Staff costs - reimbursement	23
Members Allowances - reimbursement	10
Grounds Maintenance recharge	8
Total	302

4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

4.1 Legal Officer's Comments (NM)

There are no legal implications arising directly out of this report.

4.2 Finance Officer's Comments (LW)

This report has been prepared by Financial Services. There are no further comments to add.

4.3 Diversities and Equalities Implications

The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

4.4 Communications (KA)

There are no communications implications arising directly out of this report.

5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Gavin Edwards, Performance and Improvement Specialist
Tel: 01303 853436 email: gavin.edwards@folkestone-hythe.gov.uk

Lee Walker, Capital and Treasury Senior Specialist
Tel: 01303 853593. e-mail: lee.walker@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

None

Appendices:

Appendix 1 – Financial Update for 2020/21

Appendix – Financial Update for 2020/21

Oportunitas Board Meeting 23 February 2021

Oportunitas Limited – Financial Update for 2020/21

Prepared by Lee Walker

1. Introduction

1.1 This paper provides an update to the Board of the company's financial position for the current financial year. It covers the latest trading position to 31 January 2021 reported through the profit and loss account, provides an updated projection of the outturn for the profit and loss account compared to the original forecast for 2020/21 and summarises the capital expenditure incurred to date.

2. Profit and Loss Account 2020/21

2.1 The table below summarises the latest trading position for the company to 31 January 2021 and provides the latest projected outturn for the financial year ending 31 March 2021 compared to the original forecast for the year:

Profit and Loss Account	Actual to 31 January 2021	Original Forecast 2020/21	Latest Projection 2020/21	Variance Projection to Original Forecast
	£	£	£	£
Housing Rental				
Rental Income	212,059	269,516	256,500	(13,016)
Rental Expenses	(50,102)	(91,235)	(83,252)	7,983
Net	161,957	178,281	173,248	(5,033)
Grounds Maintenance				
Income	7,462	15,300	10,000	(5,300)
Expenses	(5,971)	(12,240)	(8,000)	4,240
Net	1,491	3,060	2,000	(1,060)
Overheads				
Directors Remuneration	(8,059)	(11,361)	(9,693)	1,668
FHDC Officer Support	(19,380)	(23,256)	(23,256)	0
Operating Expenses	(3,767)	(47,534)	(43,034)	4,500
Total Overheads	(31,206)	(82,151)	(75,983)	6,168
Loan Interest	(175,002)	(208,535)	(208,535)	0
P & L Operating Surplus / (Deficit) for period	(42,760)	(109,345)	(109,270)	75

Appendix – Financial Update for 2020/21

2.2 Trading Position to 31 January 2021

2.2.1 The company has generated a net income of £163k from its trading activities for the period to 31 January 2021, mainly from its housing rentals. However, after allowing for the interest on its loan with the Council and its operating overheads, the company has made an operating loss of almost £43k for the period. This is in line with expectations.

2.2.2 There are costs, particularly for overheads, that are due to be incurred or accrued by the end of the financial year that do not feature in the actual position to 31 January 2021, such as the loan arrangement fee for the new loan facility, property valuation fees and the Audit fee.

2.3 Projected Outturn to 31 March 2021

2.3.1 The latest projected outturn for the financial year to 31 March 2021 shows a trading loss of almost £109k and is in line with the original forecast. This latest projected outturn is also consistent with the position reported to the Board at its last meeting on 16 November 2020.

2.3.2 Although the projected net trading loss for the year is unchanged from the original forecast, there are variances within the different categories of the profit and loss account and these are summarised in the table below:

Variances – Projected Outturn to Original Forecast		£'000
i)	Housing Rental Income – reduction from higher than anticipated void periods mainly due to two units being unable to let for lengthy following serious water damage due to accidental leaks	(13)
ii)	Housing Rental Expenses – increase in provision for bad debts due to a rise in rental arrears over the year	(5)
iii)	Housing Rental Expenses – reduction in the cost of managing and maintaining the property stock. The majority of repairs and maintenance to the stock are currently undertaken on a responsive basis and arranged by the two managing agents.	13
iv)	Grounds Maintenance Work – only a limited amount of work has been undertaken in the period due to Covid-19 restrictions. This has made little difference to the net income position to the company	(1)
v)	Overheads – mainly due to a saving on interest for the short-term working capital facility with the Council which has not been utilised.	6
Total reduction in deficit compared to forecast		-

2.3.3 The company is due to make its half-yearly scheduled repayment of loan interest (£105k) and principal (£14k) to the Council on 31 March 2021.

Appendix – Financial Update for 2020/21

2.3.4 The company's property portfolio is required to be revalued as at 31 March 2021. Any (unrealised) valuation gain or loss to the property portfolio will need to be reflected in the profit and loss account when the company's Statement of Accounts are prepared for the year ending 31 March 2021.

3 Capital Expenditure – Royal Victoria Hospital (RVH) Development

3.1 The table summarises the latest position for capital expenditure incurred on the RVH development.

Date	Description	Amount £
17/02/2020	Deposit – Phases A & B	1,275,000
11/06/2020	Phase A – stage payment no. 1	110,250
07/08/2020	Phase A – stage payment no. 2	220,500
29/09/2020	Phase A – stage payment no. 3	208,250
25/11/2020	Phase A – stage payment no. 4	266,400
22/01/2021	Phase A – stage payment no. 5	249,000
	Total Paid	<u>2,329,400</u>

3.2 The funding of the capital expenditure incurred has been met from the proceeds of the Council's new equity investment in the company.

3.3 The Board are reminded the current equity agreement with the Council provides for the equity of £4.43m to be drawn down in four tranches. The first two tranches totalling £2.35m have already be drawn down from the Council. The third tranche for £1.04m will need to be drawn down ahead of the next stage payment being made for the RVH development.

4 Recommendations

4.1 **The Board note the latest financial position for 2020/21 outlined in this paper.**

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