

This report will be made public on 12 October 2021.



Report Number **C/21/37**

To: Cabinet
Date: 20th October 2021
Status: Non-Key Decision
Director: Andy Blaszkwicz, Corporate Director –
Housing & Operations
Cabinet Member: Councillor David Monk, Leader of the Council
Oportunitas Chairman: Councillor Patricia Rolfe

SUBJECT: OPORTUNITAS PROGRESS REPORT 2021/22 – To 31 July 2021

SUMMARY: This report provides an update from the Board of Oportunitas Ltd (“the company”) on activities undertaken so far during the 2021/22 financial year, including a projected outturn for the profit and loss account for the period to 31 March 2022 compared to the original forecast. This report is in-line with the requirement contained in the Shareholder’s Agreement between the company and the Council. The chairman 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/21/37.
2. To note the latest projected outturn for the Profit and Loss Account of Oportunitas Limited for the financial year ending 31 March 2022.

1. BACKGROUND

- 1.1 The report sets out the company's current progress in 2021/22 in relation to its investments and trading activity and is a requirement of the Shareholder's Agreement between the company and the Council.
- 1.2 The report provides a financial update for the current year including an initial projected outturn for the company's profit and loss account for the financial year ending 31 March 2022 compared to the original forecast for the year which was set as part of the current approved Business Plan. The financial update also provides 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 consists of 38 residential units and 1 commercial unit is 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
Total	39	

- 2.1.2 All properties are currently tenanted with the exception of three units that will be undergoing repairs at Claremont Road and Sidney Street in Folkestone and Leyburne Road in Dover. 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. However, two properties at Walter Tull Way remain being managed by Reeds Rains as it would not be advantageous to Oportunitas to alter this agreement at this time. Management of all the assets within the company will, however, be kept under regular review.
- 2.1.3 In the aftermath of compliance issues identified at East Kent Housing for the Council's housing stock, the company introduced 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

members of the board on a monthly basis. The July 2021 position of the register identifies no compliance issues within the portfolio.

2.2 Tenant Rental Arrears

2.2.1 At 31 July 2021 the property portfolio has tenant rental arrears of £22,152 for its property portfolio, an increase of £1,374 from the value at 31 March 2021 of £20,778. Although some limited progress has been made to reduce the arrears, the increase over this period is largely due to one tenant who failed to comply with repeated requests to maintain their rent payments and to agree to put a plan in place to reduce the arrears. In this case the company had no choice but to evict the tenant and this took place during August 2021, in-line with its Debt Management Policy. The guarantor for the tenant is now being pursued to recover the outstanding arrears of approximately £6,500 to the company.

2.2.2 There are a further eight tenants with rental arrears as at 31 July 2021 and the managing agent is working closely with those tenants to actively reduce this. Included in this are two tenants who currently have arrears of more than three months, in total amounting to about £12,000. In both these cases the tenants had significant arrears prior to the pandemic. Both tenants are currently paying their monthly rent and making additional payments towards reducing their arrears. The company is continually reviewing its decisions on arrears and evictions in line with the latest legislation. The company's rental arrears register continues to be monitored on a monthly basis with both the managing agents and the company board. Both managing agents are instructed to notify the Company of any tenants that fall one month behind with their rent to enable the company to decide on an appropriate course of action to recover any arrears, again, in-line with the Debt Management Policy.

2.3 Royal Victoria Hospital

2.3.1 Works on Phase A of the Royal Victoria Hospital Development that will bring forward a total of 18 units has continued to progress during the first quarter of this year as coronavirus restrictions have eased. The site has been subjected to quarterly inspections from an appropriately qualified member of the Council's estates team to document the project's development progress to provide technical assurance and to ensure the company is satisfied with the works before contractual tranche payments are released against an agreed schedule. Progress updates and photos from site inspections have also been presented to board members on a quarterly basis.

2.3.2 The latest inspection of Phase A was conducted in August 2021 and highlights the following progress:

- Internal finishing works are now well advanced
- All temporary scaffolding has now been removed
- Front site hoarding has now been removed and works are progressing on the front boundary and car park
- Utility connections to the individual flats is currently in progress

- 2.3.3 Phase A of the RVH development is now due to complete in early October 2021 as opposed to the late summer 2021 as originally set out in the business plan due to sub-contractors being required to self-isolate and supply chain issues. A site visit by the board is to be scheduled on completion of the works prior to tenant occupation. To date the company has paid just almost £3.3m in deposits and staged payments to the contractor, RVH Folkestone Limited, towards Phases A and B of the development. Further information regarding this is shown in the financial update later in this report.
- 2.3.4 The board have agreed that the marketing and future management of Phase A of the RVH will be undertaken by Smith Woolley. A new dedicated website (www.rvhproperties.co.uk) and supporting social media page has been launched as part the overall marketing strategy to showcase the 18 Phase A units and generate interest from perspective tenants. Smith Woolley have also been undertaking soft market testing to generate interest and have provisionally arranged two dedicated viewing weekends to show perspective tenants around the property. The company aspires to tenants in place as soon as the property is handed over to the company.

2.4 84 Leyburne Road – Disposal of Land

- 2.4.1 In June 2021, Cabinet agreed to the company's proposal to sell the garage site at 84 Leyburne Road, Dover (Report ref: C/21/12) with delegated authority being provided to the Director for Housing and Operations to secure best value. The sale of the site has now been agreed and is currently being progressed by the legal team.

3. FINANCIAL UPDATE FOR 2021/22

- 3.1 The company's latest projected outturn for its profit and loss account compared to the original forecast for the current financial year to 31 March 2022 and an update on its investment in the RVH scheme was reported to the Board on 23 September 2021 and is shown in appendix 1 to this report.
- 3.2 In summary, the company's profit and loss account is projected to make an operating loss of approximately £40k for the year, a reduction of £9k compared to the original forecast operating loss of £49k. A delay in the completion of the first phase of the RVH scheme is projected to see a reduction in net income to the company of about £27k. However, the delay means the company has not had to draw down on the loan funding from the Council as early as originally anticipated. This is projected to save the company about £52k in interest for the year. The other notable change to the latest projected outturn is an increase in overhead costs of about £14k, mainly due to a loan agreement fee of £13k deferred from 2020/21 now being due.
- 3.3 It should be noted the profit and loss account excludes any change in unrealised property values. The company's property portfolio will be revalued as at 31 March 2022 ahead of finalising the accounts for the financial year.

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

	Phase A	Phase B	Total
	£	£	£
Agreed Sale Price	3,150,000	3,300,000	6,450,000
Paid to date	2,684,000	595,000	3,279,000
Balance	<u>466,000</u>	<u>2,705,000</u>	<u>3,171,000</u>

3.5 The funding of the capital expenditure incurred to date has been met from the proceeds of the Council's new equity investment in the company. One further tranche of equity funding for £1.04m remains to draw down from the Council before the loan facility of £2.47m is utilised to fund the acquisition.

3.6 The latest projected financial benefit to the Council from the company in 2021/22 compared to the original estimate is shown in the table below:

	Estimate 2021/22 £'000	Projection 2021/22 £'000
Loan interest	267	215
Loan repayments	29	29
Staff costs - reimbursement	25	30
Members Allowances - reimbursement	10	10
Grounds Maintenance recharge	24	12
Total	<u>355</u>	<u>296</u>

3.7 The reduction in the benefit to the Council is due to the loan to the company for the RVH scheme not being required as early as originally anticipated.

4. Website Update

4.1 A new company website (www.oportunitas.co.uk) has now been launched in order to improve the overall presence of the company and information about its trading activities and partners. The new website also includes a dedicated page to promote and signpost perspective interest in Phase A of the Royal Victoria Hospital to Smith Woolley as the marketing agent.

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 (LW)** – 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 Implications (LW)** [*Pilot reporting period*]
There are no climate change implications arising directly 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:

Lee Walker, Capital & Treasury Senior Specialist
Telephone: 01303 85 3593
Email: lee.walker@folkestone-hythe.gov.uk

Appendices

Appendix 1: Oportunitas Ltd Financial Update for 2021/22

Oportunitas Board Meeting 23 September 2021

Oportunitas Limited – Financial Update for 2021/22

Prepared by Lee Walker

1. Introduction

1.1 This paper provides an initial update to the Board of the company's financial position for the current financial year. It provides a projection of the outturn for the Profit and Loss Account compared to the original forecast for 2021/22 and explains the key variances. The paper also summarises the capital expenditure incurred to date on the Royal Victoria Hospital scheme and the funding utilised towards this.

2. Profit and Loss Account Projected Outturn 2021/22

2.1 The table below provides an initial projection of the Profit and Loss Account outturn position for the current financial year to 31 March 2022 compared to both the original forecast for the year and the outturn for 2020/21:

	Outturn 2020/21	Original Forecast 2021/22	Projected Outturn 2021/22	Variance
Profit and Loss Account	£	£	£	£
Housing Rental				
Rental Income	254,221	405,383	352,931	(52,452)
Rental Expenses	(74,297)	(135,755)	(110,328)	25,427
Net	179,924	269,628	242,603	(27,025)
Grounds Maintenance				
Income	15,519	30,000	15,000	(15,000)
Expenses	(12,415)	(24,000)	(12,000)	12,000
Net	3,104	6,000	3,000	(3,000)
Overheads				
Directors Remuneration	(9,671)	(9,864)	(9,750)	114
FHDC Officer Support	(27,907)	(24,970)	(30,000)	(5,030)
Operating Expenses	(26,802)	(23,137)	(31,800)	(8,663)
Total Overheads	(64,380)	(57,971)	(71,550)	(13,579)
Loan Interest	(209,936)	(267,457)	(214,689)	52,768
P & L Operating Surplus / (Deficit) for period	(91,288)	(49,800)	(40,636)	9,164
P & L Operating Loss b/f	(316,145)	(407,433)	(407,433)	0
P & L Operating Loss c/f	(407,433)	(457,233)	(448,069)	9,164

- 2.2 In total, the projected outturn shows an operating loss of almost £41k for the year, about £9k lower than originally forecast. The main reasons for the net reduction in the operating loss are outlined below:

Variances 2021/22 Forecast to Projected Outturn		£'000
i)	Housing Rental Income – reduction mainly due to a delay in the completion of phase 1 of the Royal Victoria Hospital (RVH) scheme from August to October 2021	(52)
ii)	Housing Rental Expenses – a reduction in projected operating costs for the RVH scheme due to the delay (£15k) and a reduction in the provision for bad debts (£10k) to reflect the provision already made	25
iii)	Grounds Maintenance – capacity to provide this service is now largely limited to tree maintenance work	(3)
iv)	Overheads FHDC Officer Support - increase to support the acquisition of the RVH properties and rent recovery action (£5k).	(5)
v)	Overheads Operating Expenses – additional cost for 50% of loan arrangement fee deferred from 2020/21 (£13k) less saving on interest for a working capital facility not required in 2021/22 (£4k)	(9)
vi)	Loan Interest – the utilisation of the loan element of the Council’s funding to support the acquisition of the RVH scheme has not been required as early as originally anticipated mainly due to the delay to the project	53
Total reduction in deficit compared to forecast		9

- 2.3 The company’s accumulated operating loss is forecast to rise to £448k at 31 March 2022. The Board are reminded that this loss excludes unrealised valuation gains on the company’s property portfolio which stands at £757k after tax at 31 March 2021. A further revaluation of the company’s property portfolio will be undertaken at 31 March 2022.

- 2.4 Further updates on the company’s projected outturn for the current financial year are planned to be made at future Board meetings over this period.

3. Capital Expenditure – Royal Victoria Hospital (RVH) Development

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

	Phase A £	Phase B £	Total £
Agreed Sale Price	3,150,000	3,300,000	6,450,000
Paid to date	2,684,000	595,000	3,279,000
Balance	<u>466,000</u>	<u>2,705,000</u>	<u>3,171,000</u>

3.2 The funding of the capital expenditure incurred to date has been met from the proceeds of the Council's new equity investment in the company. One further tranche of equity funding for £1.04m remains to draw down from the Council before the loan facility of £2.47m is utilised to fund the acquisition.

4. Recommendations

4.1 The Board note the latest financial position for 2021/22 outlined in this paper.

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