Agenda Item 4

Report Number **C/22/49**

To:	**Cabinet**
Date:	**20 October 2022**
Status:	**Non-Key Decision**
Director:	**Andy Blaszkowicz, Corporate Director – Housing & Operations**
Oportunitas Chairman:	**Councillor Patricia Rolfe**

SUBJECT: OPORTUNITAS PROGRESS REPORT 2022-23

SUMMARY: This report provides an update from the Board of Oportunitas Ltd ("the company") on activities undertaken so far during the 2022/23 financial year, including a projected outturn for the profit and loss account for the period to 31 March 2023 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/22/49.**

1. BACKGROUND

1.1 The report sets out the company's current progress for the 2022-23 financial year in relation to its property holdings 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 2023 compared to the original forecast for the year, included as part of the current Business Plan approved by Cabinet on 23 March 2022 (minute 91 refers). 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 remains at 56 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 (RVH Phase 1)	18	15 x 2 bed units 3 x 1 bed units
Total	**57**	

2.12 All residential properties are currently tenanted with the exception of one unit at Leyburne Road in Dover that is currently being remarketed for let following previous repair works. 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 continue to be kept under regular review. The commercial unit at 15 Grace Hill, Folkestone is currently vacant and unable to be let due substantial damage following a leak from the flat above. The company is currently pursuing an insurance claim for the repairs, however the insurer has initially repudiated this on the grounds the commercial unit was vacant. This decision is currently challenged with the insurer.

2.13 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 members of the board on a monthly basis. The August 2022 position of the register in identifies no compliance issues within the portfolio.

2.2 Rental Arrears

2.2.1 At 31 July 2022 the property portfolio has tenant rental arrears of £16,063 for its property portfolio, a reduction of £7,342 from the value at 31 March 2022 of £23,405. The main reason for the reduction is the company successfully recovered the arrears of a former tenant through the rent guarantor. The arrears were recovered in-line with the company's Debt Management Policy.

2.2.2 There are eight tenants with rental arrears of one month or more as at 31 July 2022 and the managing agent is working closely with those tenants to actively reduce this. Almost half of the £16k 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 occasional additional payments towards their arrears. 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 Debt Management Policy.

2.3 Royal Victoria Hospital

2.3.1 Work on Phase 2 of the RVH Development that will bring forward a further 19 units in a new four storey block of flats adjacent to the former RVH building, Phase 2, has continued to make progress during the first half of the current financial year. However, the developer, RVH Folkestone Limited, recently informed the company the scheme is unlikely to be completed until September 2023 at the earliest, a delay of 9 months compared to existing assumptions. The developer has cited materials inflation and shortages and some labour shortages as reasons for the delay. Cabinet is reminded that the company is acquiring the building for a fixed price which was agreed before the pandemic and Russia's invasion of Ukraine. This has given the developer issues with securing materials to help keep costs down and, along with labour shortages, has contributed to the delay to the scheme.

2.3.2 The Board will consider the financial implications of the delay to the completion of Phase 2 at its next meeting. However, in broad terms the net annual benefit to the company of Phase 2 is projected to be £90k -£100k pa, so the delay of nine months could cost the company in the region of £70k - £75k.

2.3.3 The Phase 2 development is now approximately half way to being completed and this is reflected in the payments made for the scheme shown in section three, below. The site has been subject 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.

2.3.4 The latest inspection of Phase 2 was conducted in September 2022 and highlights the following progress:

- Concrete framed substructure and superstructure 100% completed
- Steel frame 100% completed
- Blockwork to lift shaft and concrete stairs 100% completed
- Timber frame to third floor / roof / dormer windows 100% completed
- Single ply roof covering 95% completed
- Brickwork and blockwork to ground floor 100% completed
- Brickwork and blockwork to first floor 60% completed
- Fence to rear boundary / car park 100% completed

2.3.5 Board members were invited to attend a site visit last month (September) hosted by the developer to inspect the progress on works to deliver Phase 2 of scheme. Naturally, there was disappointment over the news of the delay to the scheme. However, the site visit showed that tangible progress is being made to deliver the much needed high quality residential accommodation in the area. It was also pleasing to note how the company's investment in this location is being complimented by that being made by the Council in its Housing Revenue Account social housing stock, with two brand new blocks of flats nearing completion next to the Phase 2 development.

2.4 84 Leyburne Road – Disposal of Land

2.4.1 Following Cabinet agreement in June 2021 to the company's proposal to sell the garage site at 84 Leyburne Road, Dover (Report ref: C/21/12), the agreed sale of the site continues to be progressed by the legal team. Engrossments of the transfer and scaffolding and works licence have been sent to the Chairman's for signature and return. The buyer's solicitors are holding the executed copies of these documents and are now ready to complete on the sale.

3. FINANCIAL UPDATE FOR 2022/23

3.1 The financial impact to the company of the delay to phase 2 of the RVH scheme will be considered by the Board at its next meeting and reported to Cabinet as part of the next update report.

3.2 The company's initial projected outturn for its profit and loss account compared to the original forecast for the current financial year to 31 March 2023, based on income and expenditure to 31 July 2022, and an update on its investment in the RVH scheme was reported to the Board on 5 September 2022 and is shown in appendix 1 to this report. This excludes the impact of the delay to phase of the RVH scheme.

3.3 In summary, the company's profit and loss account is projected to make a small operating profit of approximately £13k for the year, an improvement of £17k compared to the original forecast operating loss of £4k. The main reason for the improvement is a saving in interest from the company not having to utilise the loan element of the Council's funding for the RVH scheme as early as original anticipated. Almost all of the company's income is generated for its property lettings, with just £7.5k projected to come from the residual grounds maintenance work it undertakes.

3.4 The stock condition survey (£20k) is expected to be undertaken during the autumn/winter of 2022/23. To date, it has not been possible to progress the major external repairs work (£64.5k) to the company's property portfolio in the current financial year and it may be necessary to reprofile some of this work to next year.

3.5 The company's accumulated operating loss is forecast to reduce to £455k at 31 March 2023. Cabinet is reminded that the company is expected to make an annual operating profit once both phases of the RVH development are completed, and that over a 5-7 year period this will offset the accumulated loss. It should also 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 2023 ahead of finalising the accounts for the financial year.

3.6 The emerging cost of living crisis affecting the UK economy is expected to have an impact to the company going forward from both increased energy costs for communal areas within its blocks of flats and the likelihood of tenants experiencing difficulties meeting their rent payments. However, this is more likely to impact the next financial year rather than the current one.

3.7 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	1.682	4.832	0.112	4.944
Balance	-	1.618	1.618	0.138	1.756

3.8 The funding of the capital expenditure incurred to date has been met from the proceeds of the Council's additional equity investment of £4.43m in the company and £0.5m of the agreed loan facility of £2.47m. The loan facility will be used to complete the purchase of phase 2 of the scheme. Interest will accrue on this loan and becomes payable once the scheme is completed.

3.9 The latest projected net financial benefit to the Council from the company in 2022/23 compared to the original estimate is shown in the table below:

	Estimate 2022/23	Projection 2022/23
	£'000	£'000
Loan interest	286	258
Loan repayments	38	29
Staff costs - reimbursement	28	28
Members Allowances - reimbursement	12	10
Grounds Maintenance recharge	12	6
Total Benefit	**376**	**331**
Less, FHDC capital financing cost	(119)	(110)
Net Financial Benefit	**257**	**221**

3.10 The reduction in the benefit to the Council is mainly due to the loan to the company for the RVH scheme not being required as early as originally anticipated. The net financial benefit to the Council has been included in the latest General Fund budget monitoring report for 2022/23.

4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

4.1 **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.

4.2 **Finance (LW) –** This report has been prepared in conjunction with Financial Services and there are no further comments to add.

4.3 **Equalities (GE) –** There are no diversity or equalities implications arising from this report.

4.4 **Communications (KA)** -There is likely to be media interest in the timeline of the Royal Victoria Hospital site development and the comms team will prepare a response accordingly.

4.5 **Climate Change** (OF) - There are no climate change implications arising from this report.

5. 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

Gavin Edwards, Performance & Improvement Specialist
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Appendices:

Appendix 1: Oportunitas Ltd Financial Update for 2022/23

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Oportunitas Board Meeting 5 September 2022

Oportunitas Limited – Financial Update for 2022/23

Prepared by Lee Walker

Summary: This paper provides an initial update of the company's financial position for the financial year ending 31 March 2023, based on income and expenditure to 31 July 2022, including the latest projected outturn for its trading activities. It also summarises the capital expenditure incurred to date on the Royal Victoria Hospital scheme and the funding used towards this.

Recommendations:

The Board note the latest financial position for 2022/23 outlined in this paper.

1. Introduction and Background

1.1 This paper provides an initial update to the Board of the company's financial position for the financial year ending 31 March 2023, based on income and expenditure to 31 July 2022. It provides the latest projected outturn for the company's trading activities compared to the approved business plan for the year and explains the key variances. The paper also summarises the capital expenditure incurred to date on the Royal Victoria Hospital scheme and the funding used towards this. Further updates on the company's projected outturn for the current financial year are planned to be made to future Board meeting over this period.

2. Profit and Loss Account Projected Outturn 2022/23

2.1 The table below provides an initial projection of the outturn position of the company's trading activities for the financial year to 31 March 2023, compared to the approved business plan.

Profit and Loss Account	**2022/23 Budget** £	**2022/23 Projected Outturn** £	**2022/23 Variance** £
Property Rental			
Rental Income	542,370	537,926	(4,443)
Other Income	60,000	60,000	0
Rental Expenses	(257,025)	(266,519)	(9,493)
Net	345,344	331,407	(13,937)
Grounds Maintenance			
Income	15,300	7,500	(7,800)
Expenses	(12,240)	(6,000)	6,240
Net	3,060	1,500	(1,560)
Overheads			
Directors Remuneration	(11,645)	(10,023)	1,622
FHDC Officer Support	(28,000)	(28,000)	0
Operating Expenses	(26,182)	(23,550)	2,632
Total Overheads	(65,827)	(61,573)	4,254
Loan Interest	(286,296)	(257,926)	28,370
P & L Operating Surplus / (Deficit) for period	**(3,719)**	**13,408**	**17,127**
P & L Operating Loss b/f	(468,772)	(468,294)	478
P & L Operating Loss c/f	**(472,491)**	**(454,886)**	**17,605**

2.2 The projected outturn shows a small operating profit of £13k for the year, an improvement over £17k compared to the loss of almost £4k in the business plan. The main reasons for this variance are outlined below:

Variances 2022/23 Business Plan to Projected Outturn		£'000
i)	**Rental Income** – Mainly due a loss of rent from the vacant office at 15 Grace Hill	(4)
ii)	**Housing Rental Expenses** – Net increase in repairs and maintenance due to unforeseen works required at 15 Grace Hill (£15k) less a reduction in rental bad debts provision and other minor changes (£6k)	(9)
iii)	**Grounds Maintenance** – capacity to provide this service is now largely limited to tree maintenance work	(2)
iv)	**Overheads Directors Remuneration –** saving compared to budget	2
v)	**Overheads Operating Expenses –** saving on budgeted contingency and other minor expenses	2
vi)	**Loan Interest saving –** 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 although the scheme remains on target to be completed by the end of 2022	28
	Total reduction in operating loss compared to business plan	17

2.3 The approved business plan and projected outturn for the year currently include the special items for;-

i)	Stock condition survey	£20k
ii)	Major external repairs	£64.3k
iii)	Sale of surplus land at Leyburne Road, Dover (income)	£60k

A verbal update will be made to the Board regarding the current position with these items. If it is necessary to reprofile these items between 2022/23 and 2023/24 this will be reflected in the next financial update to the Board.

2.4 **15 Grace Hill** – An internal leak at the building earlier this year has resulted in significant damage to the vacant office on the ground floor. The estimated cost of the repairs is approximately £25k. The company reported the incident to its insurance company. Unfortunately, the insurance company has initially repudiated the claim on the grounds it is not covered under the policy because the unit had been vacant for a substantial period of time prior to the leak. This decision is being challenged with the insurer and a verbal update on the current position will be made to the Board. However, provision has been made to include the cost of the repairs to 15 Grace Hill within the projected outturn for the year, with £10k of this being met from the existing repairs and maintenance budget of £72k and the remaining £15k shown as an additional cost.

2.5 The company's accumulated operating loss is forecast to reduce by £17k to £455k at 31 March 2023. The Board is reminded that this loss excludes unrealised valuation gains on the company's property portfolio which provisionally stands at £1,207k after tax at 31 March 2022. A further revaluation of the company's property portfolio will be undertaken at 31 March 2023.

2.6 **Cost of Living Crisis** – The emerging cost of living crisis currently sweeping the UK economy is expected to have a two-fold impact on the company going forward. Firstly, the company's operating costs for its property portfolio will increase for the communal heating and lighting of the blocks of flats it owns. It will also have to absorb any increase in costs charged by contractors for property repairs and maintenance. Secondly, there will be an increased likelihood of its residential tenants having difficulty meeting their rent payments, raising the prospect of an increase in bad debts over time.

2.7 However, at this stage the financial impact to the company of these issues is expected to impact from 2023/24 rather than the current financial year. A detailed review of the company's planned budget for 2023/24, including the estimated impact of inflationary and other economic pressures, will be submitted to the Board over the winter as part of the annual business planning process required by the Council.

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 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
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3.2 The funding of the capital expenditure incurred to date has been met from the proceeds of the Council's additional equity investment of £4.43m in the company and £0.5m of the agreed loan facility of £2.47m. The loan facility will be used to complete the purchase of phase 2 of the scheme over the remainder of the current financial year. Interest will accrue on this loan and becomes payable once the scheme is completed.