



This Report will be made public on 12 March 2024



Report Number **C/23/97**

To: Cabinet
Date: 20 March 2024
Status: Non-Key Decision
Director: Andy Blaszkowicz, Corporate Director – Housing & Operations
Oportunitas Chair: Councillor James Butcher

SUBJECT: OPORTUNITAS PROGRESS REPORT 2023/24 TO 31 JANUARY 2024

SUMMARY: This report provides an update from the Board of Oportunitas Ltd (“the company”) on activities undertaken so far during the 2023/24 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 January 2024. 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/23/97.
2. 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 latest trading position and projected financial outturn for the financial year ending 31 March 2024, based on activity to 31 January 2024, and is a requirement of the Shareholder's Agreement with the Council. Cabinet considered the previous progress report for the company on 13 December 2023, based on activity to 31 October 2023.

1.2 Specifically, this report provides an update on the following issues:-

- i) the company's property portfolio,
- ii) the latest rent arrears position for the company's property portfolio,
- iii) the projected profit and loss account outturn for the year ending 31 March 2024 compared to the budget and previous projection,
- iv) the net return to the Council as shareholder for the year ending 31 March 2024,
- v) the provisional outturn for the capital cost and funding for the Royal Victoria Hospital (RVH) project,
- vi) the company's Business Plan for 2024/25, and
- vii) the financial review of the company being undertaken

2 INVESTMENT PORTFOLIO UPDATE

2.1 Property Portfolio

2.1.1 The company's current property portfolio remains at 76 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	17 x 2 bed units 2 x 1 bed units
Total	76	

2.1.2 At the time of writing, all residential properties are currently tenanted apart from one unit at Leyburne Road in Dover, where works are on-going to enable it to be let. Where vacancies have occurred the company's agents have worked hard to minimise void periods, usually limited to an average of about one month. 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, and works are currently in progress to remedy this and should be completed by April 2024. £25k has been provided in the 2023/24 projection for these works.

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 January 2024 position of the register identifies no compliance issues within the portfolio.

2.2 Tenant Rental Arrears

2.2.1 At 31 January 2024 the property portfolio has tenant rental arrears of £14.4k, a slight increase of £0.2k compared to the previously reported total of £14.2k at 31 October 2023. The arrears have reduced by £2.1k from the total at 31 March 2023.

2.2.2 There are six tenants with rental arrears of one month or more as at 31 January 2024 and the managing agent is working closely with those tenants to actively reduce this. £5.3k 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 Since the last update to Cabinet on 13 December 2023, the company has successfully let all 19 units of phase 2 of the RVH Development. There was a strong demand for these units and the company is receiving an average rental yield of 7% from them with the monthly rents ranging from £800 to £1,095, generating a total rent of £19,315 per month.

2.3.2 The total capital cost and funding for both phases of the RVH development is summarised below:

	Contract Cost	SDLT	Total
<u>Expenditure</u>	£m	£m	£m
Phase 1	3.150	0.112	3.262
Phase 2	3.309	0.099	3.399

Total expenditure	6.450	0.211	6.661
<u>Funding Utilised</u>	Approved £m	Utilised £m	Balance £m
FHDC equity	(4.430)	(4.430)	-
FHDC loan	(2.470)	(2.231)	(0.239)
Total funding	(6.900)	(6.661)	(0.239)

2.3.3 The reason for the overall cost being slightly lower than the approved funding is due to the Stamp Duty Land Tax (SDLT) being less than originally anticipated. This will lead to a small saving in interest costs in 2023/24 and future years.

3. FINANCIAL UPDATE FOR 2023/24

3.1 The company's latest financial update for 2023/24 was reported to the Board on 7 March 2024 and a copy is shown in **appendix 1** 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.

3.2 In summary, the company's profit and loss account is projected to make an operating loss of approximately £11k for the year, a reduction of £39k compared to the original forecast operating loss of £50k. The main reasons for the reduction in the loss are;

- i) improved residential rental income £17k
- ii) saving on interest costs for RVH borrowing £14k

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 2024 ahead of finalising the accounts for the financial year. HM Land Registry data for 2023 shows local residential property prices have seen an average reduction of about 7% for the year to 31 December 2023, meaning it is quite likely there will be a downward revaluation of the portfolio this year. The actual position will be reported to the Board as part of the annual statement of accounts process later this year, and in turn Cabinet.

3.4 The latest projected outturn operating loss of £11k is some £105k different than the operating profit of £94k reported to Cabinet on 13 December 2023. The main reason for this difference is interest required to be accrued to the Council in 2023/24 towards the RVH project being omitted from the previous projection.

3.5 The company is projected to have an accumulated operating loss of £440k at 31 March 2024, about £6k lower than originally forecast for the year.

4. SHAREHOLDER RETURN

4.1 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	307	293
Loan repayments	32	32
Staff costs - reimbursement	28	28
Members Allowances - reimbursement	12	9
Grounds Maintenance recharge	8	8
Total Benefit	387	370
Less, FHDC capital financing cost	(500)	(583)
Net Financial Deficit	(113)	(213)

4.2 The reduction in the benefit to the Council is mainly due to an increase in the capital financing cost, where the average cost of borrowing in 2023/24 is projected to have risen to 5.95%, an increase of 1.45% compared to the 4.5% originally forecast.

5. COMPANY FINANCIAL REVIEW AND NEXT BUSINESS PLAN

5.1 As outlined to Cabinet on 13 December 2023, a **financial review** of the company has been commissioned and is being undertaken by Arlingclose Limited, the Council's treasury and capital adviser. The review includes:

- Financial viability of the company and due diligence
- Assessment and modelling of profitability/breakeven
- Assessment of leverage, debt:equity ratio, including options for debt restructuring and identification of potential savings

5.2 Officers have been working closely with Arlingclose on the review and the outcome of this work is expected to be reported to the company's Board at a special meeting either later in March or in early April 2024.

5.3 The review will help to inform the company's next **business plan** covering a period from 2024/25 and it will also be considered by the Board at the special meeting.

5.4 The outcome of the financial review and the next business plan will then be submitted to Cabinet for consideration, planned for April 2024. Cabinet is required to approve the business plan and any key financial changes affecting the company.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

- 6.1 **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.

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

7. 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, Interim Accountant
Telephone: 01303 853676
Email: lee.walker@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 7 March 2024 - Financial Update Report for 2023/24

Oportunitas Board Meeting 07 March 2024
Oportunitas Limited – Financial Update for 2023/24
Prepared by Lee Walker – Interim Accountant

Summary: This paper provides an update of the company's projected financial position for the financial year ending 31 March 2024, based on income and expenditure to 31 January 2024. It also summarises the provisional outturn of capital expenditure incurred and funding utilised for both phases of the now completed Royal Victoria Hospital project.

The headline financial data from the report is shown in the table below:

Summary Key Information	2023/24	2023/24	2023/24
		<i>Previous Projected Outturn</i>	<i>Latest Projected Outturn</i>
	Budget		
	£	£	£
Operating Surplus / (Deficit) for period	(49,637)	94,029	(10,636)
Operating Loss b/f	(396,714)	(348,000)	(429,246)
Operating Loss c/f	(446,351)	(253,971)	(439,882)
Rental Income	562,830	594,825	579,627
Rental Yields	5.67%	6.00%	5.90%
Shareholder Return (Income)	(387,452)	(285,741)	(370,226)

Recommendations:

- 1) **The Board note the latest financial position for 2023/24 outlined in this paper.**

1. Introduction and Background

- 1.1 This paper provides an update of the company's financial position for the financial year ending 31 March 2024, based on income and expenditure to 31 January 2024, and builds upon the previous position reported to the Board on 23 November 2023. 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 provisional outturn of capital expenditure incurred and funding utilised for both phases of the now completed Royal Victoria Hospital (RVH) project.

Appendix 1

2. Profit and Loss Account Projected Outturn 2023/24

2.1 The table below provides the latest projection of the outturn position of the company's trading activities for the financial year to 31 March 2024, compared to the approved business plan forecast and the previous projection for the year, reported to the Board on 23 November 2023. This excludes the impact of any changes in valuation for the company's property portfolio, covered later in this paper.

Profit and Loss Account	2023/24	2023/24	2023/24	2023/24
	Budget	Previous Projected Outturn	Latest Projected Outturn	Variance Budget to Latest Projection
	£	£	£	£
Property Rental				
Rental Income	562,830	594,825	579,627	16,797
Rental Expenses	(187,128)	(177,168)	(182,149)	4,979
Special Item - Stock Condition Survey	(20,000)	(20,000)	0	20,000
Special Item - Major External Repairs & Redecorations	(32,150)	(32,150)	(32,150)	0
Net	323,552	365,507	365,328	41,776
Grounds Maintenance				
Income	10,167	10,167	10,167	0
Expenses	(8,134)	(8,134)	(8,134)	0
Net	2,033	2,033	2,033	0
Overheads				
Directors Remuneration	(11,878)	(11,878)	(8,980)	2,898
FHDC Officer Support	(28,560)	(28,560)	(28,560)	0
Operating Expenses	(27,409)	(27,409)	(27,409)	0
Special Item - Financial Review	0	0	(20,000)	(20,000)
Total Overheads	(67,847)	(67,847)	(84,949)	(17,102)
Loan Interest	(307,376)	(205,665)	(293,049)	14,327
P & L Operating Surplus / (Deficit) for period	(49,637)	94,029	(10,636)	39,001
P & L Operating Loss b/f	(396,714)	(348,000)	(429,246)	(32,532)
P & L Operating Loss c/f	(446,351)	(253,971)	(439,882)	6,469

2.2 The projected outturn shows an operating loss of almost £11k for the year, an improvement of £39k compared to the anticipated loss of almost £50k in the business plan. The main reasons for this variance are outlined below:

Variances 2023/24 Business Plan to Projected Outturn		£'000
i)	Rental Income – improved rental income mainly from RVH 2 flats	(17)

Appendix 1

ii)	Housing Rental Expenses – reduction in provision for bad debts (£17k), less increase in cost of repairs and maintenance to stock (£12k)	(5)
iii)	Loan Interest Saving – borrowing required for overall RVH project lower than originally anticipated	(14)
iv)	Directors Remuneration – saving mainly due to some Board members already in receipt of FHDC Special Responsibility Allowance for other roles	(3)
Total reduction in operating loss compared to business plan		(39)

2.3 The projected reduction to the bad debts provision of £17k is being made because adequate provision has been made in previous financial years for potential doubtful debts, mainly rent arrears. The position will be closely monitored in future years to ensure reasonable provision continues to be made.

2.4 The overall rental yield currently being received on the company’s property portfolio is 5.90%, an increase of 0.23% compared to the budgeted value of 5.67%. This is largely due to higher rents being achieved on the units from the second phase of the RVH scheme.

2.5 The stock condition survey originally planned for 2023/24 has been delayed until 2024/25 and the budget of £20k is now being used to meet the cost of the financial review of the company being undertaken by Arlingclose Limited.

2.6 The company’s accumulated operating loss, before the impact of any property valuation changes, is forecast to increase by £11k from £429k at 31 March 2023 to £440k at 31 March 2024. It should also be noted the 2023/24 budget for the operating loss brought forward from 2022/23 has been amended from £348k, shown in the previous update to the Board, to £397k, in line with the approved business plan for the year. A minor revision has also been made to the loan interest budget for the same reason.

2.7 Comparison of latest projected outturn to previous projected outturn at 31 March 2024

2.7.1 The table at 2.1, above, shows the latest projected outturn to be an operating loss of £11k, compared to the previously reported operating profit of £94k, a difference of £105k. The main reasons for the change in projections are:

		£'000
i)	Interest is required to be accrued in 2023/24 for the loan advanced from the Council towards the RVH project, previously omitted	87
ii)	Property rental income lower than previously projected	15
Total		102

Appendix 1

2.7.2 It should also be noted that the cumulative profit and loss operating loss brought forward value is now £429k rather than £348k previously reported. The latest projection reflects the actual position from the audited accounts to 31 March 2023.

2.8 Return to Shareholder

2.8.1 The projected gross income return for 2023/24 to the Council as the sole shareholder of the company is summarised in the table below:

Return to Shareholder	2023/24	2023/24	2023/24
		Latest Projected Outturn	Variance Budget to Latest Projection
	Budget		
	£	£	£
Loan Interest	(307,376)	(293,049)	14,327
Grounds Maintenance Income	(8,134)	(8,134)	0
Members SRA recharge	(11,878)	(8,980)	2,898
Staff recharges	(28,560)	(28,560)	0
Total General Fund Income	(355,948)	(338,723)	17,225
Loan principal repayment	(31,504)	(31,504)	0
Total Income	(387,452)	(370,226)	17,225

2.8.2 The Board are reminded the Council has incurred capital financing costs of its own through prudential borrowing incurred for the loan and equity funding provided to the company to meet the cost of the RVH project and is not reflected in the table above. This is projected to be approximately £583k for 2023/24. Cabinet will consider the overall position in its next quarterly review report of the company.

2.9 Property Valuations

2.9.1 The company is required to revalue its property portfolio as at 31 March of each financial year. Any change in value over the year is required to be shown in the profit and loss account as an unrealised gain or loss as well as being reflected on the balance sheet. At 31 March 2023 the company had a cumulative unrealised valuation gain of about £1.64m, net of deferred Corporation Tax. This means that the company had an accumulated profit of £1.21m at 31 March 2023 (£1.64m accumulated unrealised valuation gain, less £0.43m accumulated operating loss).

2.9.2 A revaluation to the property portfolio as at 31 March 2024 will take place shortly and, therefore, no valuation change is included in the projected outturn. HM Land Registry data for 2023 shows local residential property prices have seen an average reduction of about 7% for the year to 31 December 2023, meaning it is quite likely there will be a downward revaluation of the portfolio this year. The actual position will be reported to the Board as part of the annual statement of accounts process later this year.

3 Royal Victoria Hospital (RVH) Development

- 3.1 As the Board are aware, the company completed on phase 2 of the RVH project in late 2023. The table below summarises the final position for capital expenditure incurred and funding utilised for the whole RVH development:

	Contract Cost £m	SDLT £m	Total £m
<u>Expenditure</u>			
Phase 1	3.150	0.112	3.262
Phase 2	3.300	0.099	3.399
Total expenditure	<u>6.450</u>	<u>0.211</u>	<u>6.661</u>
<u>Funding Utilised</u>	Approved £m	Utilised £m	Balance £m
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Oportunitas Board Meeting 07 March 2024
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2.9.1 The company is required to revalue its property portfolio as at 31 March of each financial year. Any change in value over the year is required to be shown in the profit and loss account as an unrealised gain or loss as well as being reflected on the balance sheet. At 31 March 2023 the company had a cumulative unrealised valuation gain of about £1.64m, net of deferred Corporation Tax. This means that the company had an accumulated profit of £1.21m at 31 March 2023 (£1.64m accumulated unrealised valuation gain, less £0.43m accumulated operating loss).

2.9.2 A revaluation to the property portfolio as at 31 March 2024 will take place shortly and, therefore, no valuation change is included in the projected outturn. HM Land Registry data for 2023 shows local residential property prices have seen an average reduction of about 7% for the year to 31 December 2023, meaning it is quite likely there will be a downward revaluation of the portfolio this year. The actual position will be reported to the Board as part of the annual statement of accounts process later this year.

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	Contract Cost £m	SDLT £m	Total £m
<u>Expenditure</u>			
Phase 1	3.150	0.112	3.262
Phase 2	3.300	0.099	3.399
Total expenditure	<u>6.450</u>	<u>0.211</u>	<u>6.661</u>
<u>Funding Utilised</u>	Approved £m	Utilised £m	Balance £m
FHDC equity	(4.430)	(4.430)	-
FHDC loan	<u>(2.470)</u>	<u>(2.231)</u>	<u>(0.239)</u>
Total funding	<u>(6.900)</u>	<u>(6.661)</u>	<u>(0.239)</u>

- 3.2 The reason for the overall cost being slightly lower than the approved funding is due to the Stamp Duty Land Tax (SDLT) being less than originally anticipated. This will lead to a small saving in interest costs in 2023/24 and future years.

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