



Report Number **C/21/69**

**To:** Cabinet  
**Date:** 26<sup>th</sup> January 2022  
**Status:** Non-Key Decision  
**Director:** Andy Blaszkowicz, Corporate Director – Housing & Operations  
**Cabinet Member:** Councillor Monk, Leader of the Council  
**Oportunitas Chairman:** Councillor Patricia Rolfe

**SUBJECT: OPORTUNITAS PROGRESS REPORT 2021/22 – To 30th November 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. The report also outlines the company’s audited Statement of Accounts for the financial year ending 31 March 2021. 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/21/69.
2. To note the Full Statement of Accounts and Directors’ Report for the financial year ending 31 March 2021.
3. 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.
- 1.3 The report also sets out the company's audited Statement of Accounts for the financial year ending 31 March 2021 and outlines the changes from the provisional outturn position reported to Cabinet on 23 June 2021 (minute 10 refers).

## 2 INVESTMENT PORTFOLIO UPDATE

### 2.1 Property Portfolio

- 2.1.1 The company's current property portfolio consists of 56 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
10 Radnor Park Avenue, Folkestone (Royal Victoria Hospital – Phase A)	18	15 x 2 bed units 3 x 1 bed units
<b>Total</b>	<b>57</b>	

- 2.1.2 All properties at the time of writing this report are currently tenanted with the exception of one unit undergoing repairs at Leyburne Road in Dover and one new unit being marketed within Phase A of the Royal Victoria Hospital development in Folkestone. 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 for 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 November 2021 position of the register identifies no compliance issues within the portfolio.

## 2.2 Tenant Rental Arrears

2.2.1 At 31 October 2021 the property portfolio has tenant rental arrears of £21,213 for its property portfolio, a reduction of £939 from the value at 31 July 2021 of £22,152 reported to Cabinet on 20 October 2021 (minute 37 refers). In summary, the arrears are summarised as follows:

	Number	Amount (£)
Former tenants	2	8,447
Existing tenants	5	12,766
<b>Total</b>	<b>7</b>	<b>21,213</b>

2.2.2 The company continues to be actively engaged with the managing agent to reduce the arrears for the existing tenants through agreed repayment plans, however, there are two cases where repayment plans have not been adhered to and the company has commenced proceedings against the guarantor of one former tenant to recover their arrears of £7k plus costs and in the case of another tenant with rent arrears of over £8k it may now be necessary to commence eviction action against them. All recovery action for rental arrears is undertaken in accordance with the company's Debt Management Policy.

## 2.3 Royal Victoria Hospital

2.3.1 The company completed its purchase of Phase A of the Royal Victoria Hospital development comprised of 18 high quality units at the end of October 2021. The site has been subjected to quarterly inspections throughout this phase of the project 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. A further condition survey of the building will be undertaken by a member of the Council's estates team in the summer 2022 with findings reported to the board.

2.3.2 Prior to the building being occupied by tenants, all elected members were invited to attend a site visit in mid-November 2021 hosted by the Chairman of the company, the developer and Smith Woolley to provide the

opportunity for members to have a look at examples of the newly completed units.

- 2.3.3 The 18 units have been marketed through a dedicated website and on social media to generate interest and two open weekends were hosted by Smith Woolley as the managing agent in mid-November 2021. The new units have been positively received within the local market and at the time of writing this report in December 2021, a total of 17 out of 18 units have been occupied at the agreed market rental prices to produce an overall rental yield of 6.7% for the company.
- 2.3.4 The company's focus now turns to the delivery of Phase B of the Royal Victoria Hospital, a newly developed block adjacent to the former hospital building of 19 units comprising of 17 x 2 bedroom and 2 x 1 bedroom apartments now due for completion in Autumn 2022 as opposed to Summer 2022 as stated in the company's current business plan due to construction delays associated with Phase A as a result of the pandemic. This phase of the development, like Phase A is subject to quarterly inspections by a qualified member of the Council's estates team. The latest inspection conducted in December 2021 highlights positive progress is being made with both foundation works and drainage being completed as well as the installation of some services and the first floor concrete columns.
- 2.3.5 To date the company has paid over £3.85 million 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.

## **2.4 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 with further clarification being sought from the buyer's solicitors on the 'right of way' access required to be granted over the company's retained land and how a wall that currently runs over the garage and joins on to the house (84 Leyburne Road) will be separated once the sale completes.

## **3. FINANCIAL OUTTURN TO 31 MARCH 2021**

- 3.1 The company's provisional financial outturn for the year ending 31 March 2021, subject to Audit, was considered by Cabinet on 23 June 2021. The Board considered and approved the company's audited statement of accounts at its meeting on 13 December 2021. A copy of the full Statement of Accounts and Directors' Report for the financial year ending 31 March 2021 is shown in **appendix 1** to this report. The actual Profit and Loss Account and Balance Sheet figures compared to the provisional outturn position are shown in **appendix 2** to this report. The main changes made to the audited outturn compared to the provisional position reported in June are outlined below.

3.1.1 **Profit and Loss Account** – Appendix 2 shows the profit after tax is £269,028, an increase of £82,526 compared to the provisional figure of £186,503. The reasons for this increase are;-

Adjustment	Amount (£)
i) Additional accrued rental income for cash received in April 2021 relating to March 2021	6,123
ii) Minor reduction to creditor accruals at 31 March 2021	188
iii) Adjustment to deferred Corporation Tax liability	76,215
Total adjustment	82,526

3.1.2 The deferred Corporation Tax liability is made against the company's profits resulting from its unrealised valuation gains on its investment property portfolio. A review of this identified a reduction in the tax liability of £76,215. Of this, about £60k related to an adjustment for prior financial years. The Auditor advised this is below the materiality threshold that would require the prior year's accounts to be restated. This means the actual deferred tax on profit for the year is a net credit of £11,054. Allowing for the adjustment, the company's cumulative deferred tax liability with HMRC at 31 March 2021 is £58,674. As no Corporation Tax is due to HMRC at this point there are no direct financial implications to the company from this adjustment.

3.1.3 **Balance Sheet** - Appendix 2 shows the value of the company's net assets is £4,300,940, an increase of £82,526 compared to the provisional outturn figure of £4,218,414. The increase mirrors the adjustment for the company's increase in its profit after tax and is represented in the Profit and Loss Account Reserve shown on the Balance Sheet.

3.1.4 The Auditor advised that the stage payments made towards acquiring of both phases of the Royal Victoria Hospital scheme, totalling £2,502,050 as at 31 March 2021, should be classified as 'Investment Assets Under Construction' rather than shown as a capital debtor on the Balance Sheet. This is because there was a formal contract to acquire being in place at 31 March 2021 rather than the conditional agreement that was applicable at 31 March 2020.

3.2 **Audit Opinion** – It is pleasing to note the Auditor gave an unqualified opinion of the company's accounts for the financial year.

3.3 The full Statement of Accounts has been submitted to Companies House as a matter of public record.

#### 4. FINANCIAL UPDATE FOR 2021/22

4.1 The company's latest financial update for 2021/22 was reported to the Board on 13 December 2021 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 2022 together with an update on its investment in the RVH scheme.

4.2 In summary, the company's profit and loss account is projected to make an operating loss of approximately £60k for the year, an increase of £10k compared to the original forecast operating loss of £49k. The loss is about £20k more than previously projected to the Board on 23 September 2021. In summary, the main reasons for the projected increase in the operating loss are:

<b>Variances 2021/22 Forecast to Projected Outturn</b>		<b>£'000</b>
i)	<b>Rental Income</b> – reduction mainly due to a delay in the completion of phase 1 of the Royal Victoria Hospital (RVH) scheme from August to November 2021	(62)
ii)	<b>Loan Interest</b> – 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

4.3 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.

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

	<b>Phase A</b>	<b>Phase B</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Agreed Sale Price	3,150,000	3,300,000	6,450,000
Paid to date	3,150,000	705,000	3,855,000
Balance	0	2,595,000	2,595,000

4.5 Additionally, Stamp Duty Land Tax of £112,500 has been paid on completion of Phase A.

4.6 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. The loan facility of £2.47m from the Council remains available and will be used towards completing the acquisition of the scheme.

- 4.7 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
<b>Total</b>	<b>355</b>	<b>296</b>

- 4.8 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.

## 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 (LW)** – 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:

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**Appendices:**

**Appendix 1:** Oportunitas Ltd Statement of Accounts and Directors' Report for the financial year ending 31 March 2021

**Appendix 2:** Oportunitas Ltd Actual Profit and Loss Account and Balance Sheet to 31 March 2021 compared to the provisional outturn position

**Appendix 3:** Oportunitas Ltd Board Meeting 13 December 2021 - Financial Update Report for 2021/22