

This Report will be made public on 15 March 2022

Report Number **C/21/89**

To: Cabinet
Date: 23rd March 2022
Status: Non-Key Decision
Head of Service: Andy Blaszkowicz – Director of Housing and Operations
Oportunitas Chairman: Councillor Patricia Rolfe
Cabinet Member: Councillor David Monk, Leader and Portfolio Holder for Finance

SUBJECT: OPORTUNITAS LIMITED – PROGRESS REPORT 2021/22 & BUSINESS PLAN 2022/23

SUMMARY: This report proposes a Business Plan from the Board of Oportunitas Ltd (“the company”) covering its activities through to 31 March 2023. The report also provides a financial update for 2021/22. The report meets the requirement contained in the Shareholder’s agreement between the company and the Council.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because the Shareholder Agreement between the company and the Council requires a Business Plan to be approved for the next trading period.

RECOMMENDATIONS:

1. To receive and note report C/21/89.
2. To agree the Business Plan for Oportunitas Limited for the period through to 31 March 2023.

1. INTRODUCTION AND BACKGROUND

- 1.1 In line with the Shareholder's agreement between Oportunitas Limited ("the company") and the Council, this report;-
- i) provides a financial update on the company's activities in 2021/22 based on the period to 31 January 2022, and
 - ii) presents the company's proposed Business Plan for the 2022/23 financial year for Cabinet's approval.
- 1.2 The Council created the company in 2014 and provided it with a total initial capital investment of £4.78m in the form of 90% debt and 10% equity to acquire land and property primarily to provide residential properties to let to families at rent levels at or just below market rates. It was recognised at the time that, despite being the significant amount initially invested, further investment would be required for the company to trade sustainably in the long term while continuing to provide the council with a return on its investment.
- 1.3 On 28 February 2018, Cabinet approved a strategic financial review of the funding required to make the company financially sustainable in the long term while still providing a return to the Council as the sole shareholder. An additional capital investment of £6.9m was approved to enable the company to acquire further residential property for rent. The Council's overall investment in the company is now 58% debt and 42% equity.
- 1.4 In early 2020 the company agreed a deal to purchase 37 units of residential property 'off plan' from a development taking place at the site of the former Royal Victoria Hospital (RVH) building in central Folkestone at a total cost of £6.45m. Phase 1 of the acquisition to purchase the former RVH building converted into 18 self-contained flats was completed in late October 2021. Phase 2 to acquire a new purpose built building of 19 self-contained flats at the site is due for completion in the autumn of 2022.
- 1.5 On 28 February 2022 the company's Board considered and approved their business plan for the period to 31 March 2023. This included an indicative financial forecast for the 2023/24 financial year, the first year the company receives the full financial benefit of its investment from RVH residential units.
- 1.6 At the same meeting the Board also received a financial update for 2021/22 for the period to 31 January 2022.

2. FINANCIAL UPDATE 2021/22

- 2.1 The company's financial update for 2021/22, based on activity to 31 January 2022, was reported to the Board on 28 February 2022 and is shown in appendix 1 to this 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, and an update on its investment in the RVH scheme.

2.2 In summary, the company's profit and loss account is projected to make an operating loss of £68k for the year, an increase of £18k compared to the original forecast of £50k. The loss is about £8k more than previously reported to the Board on 13 December 2021. The main reasons for the projected increase in the operating loss are:

Variances 2021/22 Forecast to Projected Outturn		£'000
i)	Rental Income – reduction mainly due to a delay in the completion of phase 1 of the Royal Victoria Hospital (RVH) scheme from August to November 2021	(66)
ii)	Operating Expenses – additional cost of 50% of a loan arrangement fee deferred from 2020/21 (£13k) less saving on interest on working capital facility not required (£4k)	(9)
iii)	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	59

2.3 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.

2.4 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	3.330	6.480	0.250	6.730
Paid to date	3.150	1.087	4.237	0.112	4.349
Balance	-	2.243	2.243	0.138	2.381

2.5 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 (£4.43m). The loan facility of £2.47m from the Council remains available and will be used towards completing the acquisition of the scheme. It is anticipated that up to £0.3m of the facility will be required by 31 March 2022 with the balance to be drawn down over the remainder of 2022.

2.6 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	208
Loan repayments	29	29
Staff costs - reimbursement	25	30
Members Allowances - reimbursement	10	10
Grounds Maintenance recharge	24	12
Total	355	289

2.7 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.

3. BUSINESS PLAN - 1 APRIL 2021 TO 31 MARCH 2023

3.1 The Shareholder's agreement requires the company to have a current business plan approved by Cabinet. The Board approved the company's business plan for the 2022/23 financial year on 28 February 2022 and is shown in appendix 2 to this report.

3.2 Over the period the business plan covers the company is expected to complete the purchase of phase 2 of the RVH development meaning its property portfolio will increase to 75 residential units and one commercial unit. The increased investment by the company together with its revised capital funding structure of 58% debt to 42% equity means it is now expected to be financially sustainable in the long term.

3.3 The business plan financial projection for 2022/23 includes the following one-off special items within it:

i)	External redecoration and repairs to 19 Castle Hill Avenue	35,200
ii)	External redecoration and repairs to 82/84 Leyburne Road	29,100
iii)	Stock condition survey	<u>20,000</u>
iv)	Receipt – land at Leyburne Road	<u>(60,000)</u>
	Total special items (net)	<u>24,300</u>

3.4 The company is forecast to make a small operating loss of £4k in 2022/23 before returning a profit after tax of £55k in 2023/24, the first year it receives the full benefit of the additional revenue stream from the RVH development. The cumulative projected operating loss at 31 March 2023 is £473k.

- 3.5 The business plan demonstrates the company's cash flow over the period will meet its obligations based on the approved funding arrangements in place with the Council.
- 3.6 The annual financial benefit to the Council from the company is projected to rise from £208k in 2021/22 to £257k in 2022/23 before reducing to £87k in 2023/24. The reduction in benefit in 2023/24 is due to the full impact of the capital financing costs to the Council from the prudential borrowing incurred for the £6.9m of capital funding made to the company. The modelling undertaken for this had assumed the prudential borrowing incurred for the equity investment element of £4.43m would be charged to revenue over 45 years through the statutory Minimum Revenue Provision (MRP). However, the government's latest MRP Guidance now only permits prudential borrowing incurred for equity investments to be charged to revenue over a maximum period of 20 years, reducing the net benefit to the Council over that time.
- 3.7 In terms of future activities the company remains focused on completing the acquisition of phase 2 of the RVH scheme to enable it to become financially sustainable in the long term. The outcome of the stock condition survey will help to inform a longer term repairs, maintenance and improvements programme for the company. It may also help to inform on whether or not the company should consider reviewing its property portfolio in the longer term to ensure it continues to deliver an optimum financial return.
- 3.8 By the end of the next Business Plan period the company will have been in existence for 9 years. It is considered prudent that once the second phase of the RVH scheme has been completed and let the Council consider the future role and direction of company, including the financial benefit it provides.
- 3.9 Cabinet is asked to endorse the Business Plan for the period to 31 March 2023.

4. RISK MANAGEMENT ISSUES

- 4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The company fail to meet their interest and loan repayment obligations to the Council on time	High	Low	Regular financial updates from the Board to Cabinet to provide an early warning of any cash flow issues for the company. Loans are secured on the investment

			assets of the company.
Company continues to make operating losses threatening its long term sustainability	High	Medium	Approved additional Council investment of £6.9m in the company and the application of this as outlined in the business plan expected to ensure long term position
Cost of RVH scheme increases	High	Medium	The company has secured a fixed price contract with the developer to acquire the completed units
Unforeseen property maintenance costs and rising inflation reduce the company's ability to return to profit in the future	Medium	Medium	The Council's loan agreement provides the company with the cash flow capacity to meet the impact of further financial uncertainty over the period of the business plan. The stock condition survey will help to assess and plan for the future maintenance works.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's Comments (NM)

There are no legal issues arising directly from this report.

5.2 Finance Officer's Comments (LW)

The Financial Update for 2021/22 shown in appendix 1 has been prepared by the Finance Specialist Team. The proposed business plan for 2022/23 shown in appendix 2, including the financial forecast and Shareholder benefit, has also been prepared in conjunction with the Finance Specialist Team.

5.3 Diversities and Equalities Implications (GE)

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

5.4 **Communication Officer's Comments** (JW)

There are no communication issues arising directly from this report

5.5 **Climate Change Implications** [*Pilot reporting period*] (OF)

There are no climate 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 officer prior to the meeting

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

None

Appendices:

Appendix 1 – Financial Update for 2021/22

Appendix 2 – Oportunitas Limited Business Plan 2022/23