

This Report will be made public on 14 March 2023

Report Number **C/22/104**

To: Cabinet
Date: 22 March 2023
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 2022/23 & BUSINESS PLAN 2023/24

SUMMARY: This report proposes a Business Plan from the Board of Oportunitas Ltd (“the company”) covering its activities through to 31 March 2024. The report also provides a financial update for 2022/23. 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/22/104.
2. To agree the Business Plan for Oportunitas Limited for the period through to 31 March 2024.

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 2022/23 based on the period to 31 January 2023, and
 - ii) presents the company's proposed Business Plan for the 2023/24 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 2023.
- 1.5 On 6 March 2023 the company's Board considered and approved their business plan for the period to 31 March 2024. This included an indicative financial forecast for the 2024/25 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 2022/23 for the period to 31 January 2023.

2. FINANCIAL UPDATE 2022/23

- 2.1 The company's financial update for 2022/23, based on activity to 31 January 2023, was reported to the Board on 6 March 2023 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 profit of £81k for the year, an increase of £84k compared to the original forecast loss of £4k. This is an improvement of about £21k compared to the figure previously reported to Cabinet on 25 January 2023 (minute 62 refers). The main reasons for the projected increase in the operating profit are:

| Variances 2022/23 Forecast to Projected Outturn | | £'000 |
|--|---|--------------|
| i) | Housing Portfolio Net Expenses – net reduction in part due to costs being deferred until 2023/24 | 92 |
| ii) | Land Disposal – proceeds from sale of land at Leyburne Road, Dover to be paid to the Council rather than retained by the Company | (60) |
| iii) | Loan Interest – full utilisation of the loan to support the acquisition of the RVH scheme delayed until 2023/24 | 44 |
| iv) | Operating Expenses – net reduction in costs | 8 |
| Total increase in operating profit | | 84 |

2.3 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. HM Land Registry data for 2022 shows local residential property prices have seen an average increase of about 12% for the year to 31 December 2022. The previous valuation of the company's portfolio as at 31st March 2022 valued the company's portfolio at over £9.1million.

2.4 The Oportunitas Board, at their meeting on 6 March 2023, expressed their disappointment about Cabinet's decision on 25 January 2023 to require the £60k proceeds from the sale of the surplus land at 84 Leyburne Road to be paid to the Council (minute 62 refers). The Board acknowledged Cabinet's decision was in accordance with the Shareholder Agreement, but previously Cabinet had approved the 2022/23 Business Plan with the forecast receipt being retained by the Company to support further investment in its housing stock.

2.5 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 | 2.186 | 5.336 | 0.112 | 5.448 |
| Balance | 0.000 | 1.114 | 1.114 | 0.138 | 1.252 |

- 2.6 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 £1.0m of the agreed loan facility of £2.47m.
- 2.7 The latest projected 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 £'000 | Projection 2022/23 £'000 |
|------------------------------------|------------------------------|--------------------------------|
| Loan interest | 286 | 242 |
| Loan repayments | 38 | 30 |
| Sale proceeds | - | 60 |
| Staff costs - reimbursement | 28 | 28 |
| Members Allowances - reimbursement | 12 | 10 |
| Grounds Maintenance recharge | 12 | 6 |
| Total Benefit | 376 | 376 |
| Less, FHDC capital financing cost | (119) | 332 |
| Net Financial Benefit | 257 | 44 |

- 2.8 The reduction in the benefit is mainly due to the Council having to make an annual Minimum Revenue Provision (MRP) charge of £0.22m over 20 years from 2022/23 rather than 2023/24 on prudential borrowing incurred for the phase 2 equity funding previously made to the company of £4.43m.

3. BUSINESS PLAN - 1 APRIL 2023 TO 31 MARCH 2024

- 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 2023/24 financial year on 6 March 2023 and is shown in appendix 2 to this report.
- 3.2 Over the period of the business plan, 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 previous business plan financial projection included the following one-off special items originally intended to be incurred in 2022/23:

| | £ |
|---|--------|
| 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> |
| | Total special items (net) | <u>84,300</u> |

It has not been possible to progress these in 2022/23. The stock condition survey is now expected to take place in 2023/24. The works to 19 Castle Hill Avenue and 82/84 Leyburne Road are planned to be undertaken over a two-year period spanning 2023/24 and 2024/25.

- 3.4 The company is forecast to make an operating loss of £50k in 2023/24 before returning a profit after tax of £40k in 2024/25, 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 2024 is £446k. It is projected it will take about up to 8 years for the company to offset the accumulated loss. However, this is dependent on the outcome of the stock condition survey.
- 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 fall from a surplus of £44k in 2022/23 to a deficit of £113k in 2023/24, reducing slightly to a deficit of £105k in 2024/25. The Council has used prudential borrowing for the £6.9m investment in the company for the RVH development and, unfortunately, interest rates have risen over the past year leading to the increase in capital financing costs above. Previous modelling had assumed the Council's borrowing cost at an average rate of 1.5% whereas this is now at 4.5%. Additionally, the capital financing cost to the Council includes the statutory Minimum Revenue Provision (MRP) charge required to be made on capital expenditure met from borrowing. The previous business plan assumed MRP on the prudential borrowing incurred for the RVH scheme would be applicable from 2023/24, however this is now required to be made from 2022/23 and £221k is included in the projected outturn for the year. The position is summarised in the table below:

| | 2022/23 Projected Outturn £ | 2023/24 Budget £ | 2024/25 Forecast £ |
|---------------------------|--------------------------------------|------------------------|--------------------------|
| Interest received | (242,142) | (307,376) | (323,083) |
| Loan repayments | (30,021) | (31,504) | (48,005) |
| Sale proceeds | (60,000) | - | - |
| <u>Cost reimbursement</u> | | | |
| Staff Cost | (28,000) | (28,560) | (29,131) |
| Members Allowances | (10,023) | (11,878) | (12,116) |
| Grounds Maintenance | (6,000) | (8,134) | (8,297) |
| Total Return | <u>(376,186)</u> | <u>(387,452)</u> | <u>(420,631)</u> |

| | | | |
|------------------------------|-----------------|----------------|----------------|
| Total Capital Financing Cost | 332,600 | 500,208 | 525,327 |
| Net return | <u>(43,586)</u> | <u>112,756</u> | <u>104,696</u> |

- 3.7 The company currently has an unrealised valuation gain of about £1.6m from its property portfolio. Proceeds from the sale of any property by the company, after tax and fees, are due to the Council. Therefore, the increase in the market value of the property portfolio provides the Council with a level of reassurance and security over its investment in the company.
- 3.8 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.
- 3.9 By the end of the next Business Plan period the company will have been in existence for 10 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.
- 3.10 Cabinet is asked to endorse the Business Plan for the period to 31 March 2024.

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 | High | Medium | Approved additional Council investment of |

| | | | |
|---|--------|--------|---|
| losses threatening its long term sustainability | | | £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 2022/23 shown in appendix 1 has been prepared by the Finance Specialist Team. The proposed business plan for 2023/24 shown in appendix 2, including the financial forecast and Shareholder benefit, has also been prepared in conjunction with the Finance Specialist Team. The net deficit to the Council as shareholder of £113k for 2023/24 is reflected in the General Fund budget for the year.

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 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 2022/23

Appendix 2 – Oportunitas Limited Business Plan 2023/24

Appendix 2.1 – Oportunitas Property Portfolio