

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 Blaszkwicz, 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 | 3.300 | 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:

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Appendices:

Appendix 1: Oportunitas Ltd Board Meeting 7 March 2024 - Financial Update Report for 2023/24