

This Report will be made public on 8 September 2020

Report Number **C/20/32**

**To:** Cabinet  
**Date:** 16 September 2020  
**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 & BUSINESS PLAN 2020 - 2022

**SUMMARY:** This report proposes a Business Plan from the Board of Oportunitas Ltd (“the company”) covering its activities through to 31 March 2022. The report also provides a summary of the company’s provisional financial outturn position for 2019/20 as well as a trading update for 2020/21. The report is in-line with 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’s 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/20/32.
2. To agree the Business Plan for Oportunitas Limited for the period through to 31 March 2022.

## **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 summary of the company's activities and its provisional financial outturn position for the 2019/20 financial year,
  - ii) provides an update on the company's trading activities in 2020/21 based on the period to 31 July 2020, and
  - iii) presents the company's proposed Business Plan for the period 01 April 2020 to 31 March 2022 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 a significant amount, further investment would be required for the company to trade sustainable 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. Since then company has been exploring suitable property investment options. During the early part of this year 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.
- 1.4 On 6 March 2020 the company's Board considered and approved a business plan for the period to 31 March 2022 including the impact of the purchase of the RVH residential units. However, the business plan was prepared before the impact of the Covid-19 pandemic began to take effect. Subsequently the Board recognised the pandemic and other issues were likely to have an impact on the financial projections contained in the business plan and that it would be necessary to review the position before submitting a revised position to Cabinet. The Board considered and approved a revised business plan on 24 August 2020.
- 1.5 At the same meeting the Board also received a summary of the company's provisional financial outturn position for 2019/20 and a trading update for 2020/21 for the period to 31 July 2020.

## **2 PROVISIONAL FINANCIAL OUTTURN 2019/20**

- 2.1 The company's financial outturn for the financial year ending 31 March 2020 is shown in appendix 1 to this report and is subject to Audit.
- 2.2 **Profit and Loss Account Summary**

- i) The majority of the company's turnover was from property rental income (£250k)
- ii) Its largest expense was the loan interest payable to the Council (£173k)
- iii) The company made a profit after tax of £119k including an unrealised property valuation gain of £210k
- iv) Adjusting for the property gain, the company made an operating loss of £52k, broadly in line with expectations

### **2.3 Balance Sheet Summary**

- i) Investment Assets - The company paid a deposit of £1.275m for the acquisition of 37 'off-plan' residential units at the RVH site, Folkestone
- ii) Investment Assets – The company invested £79k to create an extra residential unit for its property at 1 Claremont Road, Folkestone
- iii) The accrued loan interest payable to the Council of £458k at 31 March 2019 was paid during 2019/20 in accordance with the loan agreement
- iv) Loans – The company utilised the remaining £778k of the Housing Acquisition loan from the Council. This had previously been deferred because the company had sufficient cash available to it through the original equity issue and surplus balances
- v) Share Capital and Premium – The Council increased its investment by £1.31m as the first part of its £6.9m agreed package to support the long term sustainability of the company
- vi) The Profit and Loss Reserve at 31 March 2020 is £170k. However, excluding the accumulated unrealised valuation gain of £549k, the accumulated operating loss is £310k

2.4 As outlined in section 1 of this report above, the decision to invest a further £6.9m to support the company's expansion is to allow it to trade efficiently and sustainably over the long term while maintaining value to the Council as the Shareholder.

## **3 FINANCIAL UPDATE 2020/21 – TO 31 JULY 2020**

3.1 The company's financial update for the current financial year to 31 July 2020 is shown in appendix 2 to this report.

- 3.2 In summary, the company has seen a reduction of approximately £15k in its anticipated income from both its housing rental (£13k) and grounds maintenance activities (£2k) over the period to 31 July 2020 due, in part, to the impact of the Covid-19 crisis. The company is not expected to be able recover this reduction in income over the remainder of the financial year and it has been factored into the projected outturn position for 2020/21 covered in the updated Business Plan later in this report.
- 3.3 Work has commenced on the RVH development and the company has made two stage payments totalling £330,750 for Phase A of the scheme to the developer (in addition to the original deposit of £1,275,000.00). Phase A of the scheme is on target to be completed and ready for occupation from July 2021. The capital expenditure to date has been met from the Council's new equity investment in the company.

#### **4. BUSINESS PLAN - 1 APRIL 2020 TO 31 MARCH 2022**

- 4.1 In line with Shareholder's Agreement, the company is required to have a current business plan approved by Cabinet. As outlined earlier in this report, on 24 August 2020 the company's Board approved an updated business plan for the period from 1 April 2020 to 31 March 2022, to include the projected impact of Covid-19, and is appended to this report as appendix 3.
- 4.2 The business plan covers the majority of the period during which the Council's additional investment of £6.9m in the company will take place to allow it to acquire the 37 units of residential accommodation at the RVH development.
- 4.3 The company is forecast to continue making an operating loss over the period before returning a profit once the full additional revenue stream from the RVH scheme is received. The cumulative projected operating loss at 31 March 2022 is £478k. Financial modelling undertaken predicts it will take up to 7 years to clear the accumulated operating loss from the end of the business plan period.
- 4.4 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.
- 4.5 The annual financial benefit to the Council from the company is projected to rise from £282k in 2020/21 to £355k in 2021/22.
- 4.6 Cabinet is asked to endorse the Business Plan for the period to 31 March 2022.

#### **5 RISK MANAGEMENT ISSUES**

- 5.1 A summary of the perceived risks follows:

<b>Perceived risk</b>	<b>Seriousness</b>	<b>Likelihood</b>	<b>Preventative action</b>
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
The financial impact of Covid-19 to the company lasts for longer than current expectations	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

## 6. **LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### 6.1 **Legal Officer's Comments (NM)**

There are no legal issues arising directly from this report.

### 6.2 **Finance Officer's Comments (LW)**

The provisional financial outturn for 2019/20 shown in appendix 1 and the Financial Update for 2020/21 shown in appendix 2 have been prepared by

the Finance Specialist Team. The proposed business plan shown in appendix 3, including the financial forecast and Shareholder benefit, has also been prepared in conjunction with the Finance Specialist Team.

### **6.3 Diversities and Equalities Implications**

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

## **7. 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 Outturn for 2019/20 (Subject to Audit)

Appendix 2 – Financial Update for 2020/21

Appendix 3 – Oportunitas Limited Business Plan 2020-2022

Appendix 3a – Oportunitas Property Portfolio 31 March 2020