

Oportunitas Board Meeting 07 March 2024
Oportunitas Limited – Financial Update for 2023/24
Prepared by Lee Walker – Interim Accountant

Summary: This paper provides an update of the company's projected financial position for the financial year ending 31 March 2024, based on income and expenditure to 31 January 2024. It also summarises the provisional outturn of capital expenditure incurred and funding utilised for both phases of the now completed Royal Victoria Hospital project.

The headline financial data from the report is shown in the table below:

| Summary Key Information | 2023/24 | 2023/24 | 2023/24 |
|---|------------------|---|---|
| | | <i>Previous Projected Outturn</i> | <i>Latest Projected Outturn</i> |
| | Budget | | |
| | £ | £ | £ |
| Operating Surplus / (Deficit) for period | (49,637) | 94,029 | (10,636) |
| Operating Loss b/f | (396,714) | (348,000) | (429,246) |
| Operating Loss c/f | (446,351) | (253,971) | (439,882) |
| Rental Income | 562,830 | 594,825 | 579,627 |
| Rental Yields | 5.67% | 6.00% | 5.90% |
| Shareholder Return (Income) | (387,452) | (285,741) | (370,226) |

Recommendations:

- 1) **The Board note the latest financial position for 2023/24 outlined in this paper.**

1. Introduction and Background

- 1.1 This paper provides an update of the company's financial position for the financial year ending 31 March 2024, based on income and expenditure to 31 January 2024, and builds upon the previous position reported to the Board on 23 November 2023. It provides the latest projected outturn for the company's trading activities compared to the approved business plan for the year and explains the key variances. The paper also summarises the provisional outturn of capital expenditure incurred and funding utilised for both phases of the now completed Royal Victoria Hospital (RVH) project.

Appendix 1

2. Profit and Loss Account Projected Outturn 2023/24

- 2.1 The table below provides the latest projection of the outturn position of the company's trading activities for the financial year to 31 March 2024, compared to the approved business plan forecast and the previous projection for the year, reported to the Board on 23 November 2023. This excludes the impact of any changes in valuation for the company's property portfolio, covered later in this paper.

| Profit and Loss Account | 2023/24 | 2023/24 | 2023/24 | 2023/24 |
|---|------------------|----------------------------|--------------------------|--------------------------------------|
| | Budget | Previous Projected Outturn | Latest Projected Outturn | Variance Budget to Latest Projection |
| | £ | £ | £ | £ |
| Property Rental | | | | |
| Rental Income | 562,830 | 594,825 | 579,627 | 16,797 |
| Rental Expenses | (187,128) | (177,168) | (182,149) | 4,979 |
| Special Item - Stock Condition Survey | (20,000) | (20,000) | 0 | 20,000 |
| Special Item - Major External Repairs & Redecorations | (32,150) | (32,150) | (32,150) | 0 |
| Net | 323,552 | 365,507 | 365,328 | 41,776 |
| Grounds Maintenance | | | | |
| Income | 10,167 | 10,167 | 10,167 | 0 |
| Expenses | (8,134) | (8,134) | (8,134) | 0 |
| Net | 2,033 | 2,033 | 2,033 | 0 |
| Overheads | | | | |
| Directors Remuneration | (11,878) | (11,878) | (8,980) | 2,898 |
| FHDC Officer Support | (28,560) | (28,560) | (28,560) | 0 |
| Operating Expenses | (27,409) | (27,409) | (27,409) | 0 |
| Special Item - Financial Review | 0 | 0 | (20,000) | (20,000) |
| Total Overheads | (67,847) | (67,847) | (84,949) | (17,102) |
| Loan Interest | (307,376) | (205,665) | (293,049) | 14,327 |
| P & L Operating Surplus / (Deficit) for period | (49,637) | 94,029 | (10,636) | 39,001 |
| P & L Operating Loss b/f | (396,714) | (348,000) | (429,246) | (32,532) |
| P & L Operating Loss c/f | (446,351) | (253,971) | (439,882) | 6,469 |

- 2.2 The projected outturn shows an operating loss of almost £11k for the year, an improvement of £39k compared to the anticipated loss of almost £50k in the business plan. The main reasons for this variance are outlined below:

Variations 2023/24 Business Plan to Projected Outturn

£'000

- i) **Rental Income** – improved rental income mainly from RVH 2 flats

(17)

Appendix 1

| | | |
|--|---|-------------|
| ii) | Housing Rental Expenses – reduction in provision for bad debts (£17k), less increase in cost of repairs and maintenance to stock (£12k) | (5) |
| iii) | Loan Interest Saving – borrowing required for overall RVH project lower than originally anticipated | (14) |
| iv) | Directors Remuneration – saving mainly due to some Board members already in receipt of FHDC Special Responsibility Allowance for other roles | (3) |
| Total reduction in operating loss compared to business plan | | (39) |

2.3 The projected reduction to the bad debts provision of £17k is being made because adequate provision has been made in previous financial years for potential doubtful debts, mainly rent arrears. The position will be closely monitored in future years to ensure reasonable provision continues to be made.

2.4 The overall rental yield currently being received on the company’s property portfolio is 5.90%, an increase of 0.23% compared to the budgeted value of 5.67%. This is largely due to higher rents being achieved on the units from the second phase of the RVH scheme.

2.5 The stock condition survey originally planned for 2023/24 has been delayed until 2024/25 and the budget of £20k is now being used to meet the cost of the financial review of the company being undertaken by Arlingclose Limited.

2.6 The company’s accumulated operating loss, before the impact of any property valuation changes, is forecast to increase by £11k from £429k at 31 March 2023 to £440k at 31 March 2024. It should also be noted the 2023/24 budget for the operating loss brought forward from 2022/23 has been amended from £348k, shown in the previous update to the Board, to £397k, in line with the approved business plan for the year. A minor revision has also been made to the loan interest budget for the same reason.

2.7 Comparison of latest projected outturn to previous projected outturn at 31 March 2024

2.7.1 The table at 2.1, above, shows the latest projected outturn to be an operating loss of £11k, compared to the previously reported operating profit of £94k, a difference of £105k. The main reasons for the change in projections are:

| | | |
|--------------|--|------------|
| | | £'000 |
| i) | Interest is required to be accrued in 2023/24 for the loan advanced from the Council towards the RVH project, previously omitted | 87 |
| ii) | Property rental income lower than previously projected | 15 |
| Total | | 102 |

Appendix 1

2.7.2 It should also be noted that the cumulative profit and loss operating loss brought forward value is now £429k rather than £348k previously reported. The latest projection reflects the actual position from the audited accounts to 31 March 2023.

2.8 Return to Shareholder

2.8.1 The projected gross income return for 2023/24 to the Council as the sole shareholder of the company is summarised in the table below:

| Return to Shareholder | 2023/24 | 2023/24 | 2023/24 |
|----------------------------------|------------------|--------------------------------|---|
| | | Latest Projected Outturn | Variance Budget to Latest Projection |
| | Budget | | |
| | £ | £ | £ |
| Loan Interest | (307,376) | (293,049) | 14,327 |
| Grounds Maintenance Income | (8,134) | (8,134) | 0 |
| Members SRA recharge | (11,878) | (8,980) | 2,898 |
| Staff recharges | (28,560) | (28,560) | 0 |
| Total General Fund Income | (355,948) | (338,723) | 17,225 |
| Loan principal repayment | (31,504) | (31,504) | 0 |
| Total Income | (387,452) | (370,226) | 17,225 |

2.8.2 The Board are reminded the Council has incurred capital financing costs of its own through prudential borrowing incurred for the loan and equity funding provided to the company to meet the cost of the RVH project and is not reflected in the table above. This is projected to be approximately £583k for 2023/24. Cabinet will consider the overall position in its next quarterly review report of the company.

2.9 Property Valuations

2.9.1 The company is required to revalue its property portfolio as at 31 March of each financial year. Any change in value over the year is required to be shown in the profit and loss account as an unrealised gain or loss as well as being reflected on the balance sheet. At 31 March 2023 the company had a cumulative unrealised valuation gain of about £1.64m, net of deferred Corporation Tax. This means that the company had an accumulated profit of £1.21m at 31 March 2023 (£1.64m accumulated unrealised valuation gain, less £0.43m accumulated operating loss).

2.9.2 A revaluation to the property portfolio as at 31 March 2024 will take place shortly and, therefore, no valuation change is included in the projected outturn. 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.

3 Royal Victoria Hospital (RVH) Development

- 3.1 As the Board are aware, the company completed on phase 2 of the RVH project in late 2023. The table below summarises the final position for capital expenditure incurred and funding utilised for the whole RVH development:

| | Contract Cost £m | SDLT £m | Total £m |
|-------------------------|------------------------|----------------|----------------|
| <u>Expenditure</u> | | | |
| Phase 1 | 3.150 | 0.112 | 3.262 |
| Phase 2 | 3.300 | 0.099 | 3.399 |
| Total expenditure | <u>6.450</u> | <u>0.211</u> | <u>6.661</u> |
| | | | |
| <u>Funding Utilised</u> | Approved £m | Utilised £m | Balance £m |
| FHDC equity | (4.430) | (4.430) | - |
| FHDC loan | <u>(2.470)</u> | <u>(2.231)</u> | <u>(0.239)</u> |
| Total funding | <u>(6.900)</u> | <u>(6.661)</u> | <u>(0.239)</u> |

- 3.2 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.