

Appendix 2

Oportunitas Board Meeting 24 May 2021

Oportunitas Limited Financial Outturn for 2020/21 (Subject to Audit)

Prepared by Lee Walker

1. Introduction

- 1.1 This paper provides a summary of the provisional financial outturn position for the company for the year ending 31 March 2021. The Profit and Loss Account and the Balance Sheet are subject to an independent Audit.
- 1.2 The Board will be separately asked to consider and approve the audited accounts for the year ending 31 March 2021 later this year.

2. Profit and Loss Account 2020/21

- 2.1 The Profit and Loss Account for the year ending 31 March 2021 is shown in appendix 1 to this paper. This includes a variance analysis comparing the outturn to the original forecast for the year and comparative information for the previous financial year.
- 2.2 The company has made a profit before taxation of £252k including an unrealised valuation gain of £343k on its property portfolio.
- 2.3 Excluding the valuation gain, the company has made an operating loss of £91k for the financial year. The loss is about £18k lower than originally forecast with the main reason being a deferral of 50% of a loan arrangement fee (£12.5k) until 2021/22 when the first utilisation of the new loan is expected.
- 2.4 The majority of the company's turnover of £269k has been from its residential property lettings activity (£254k). The rental income is £15k lower than originally forecast and is mainly due to a higher level of void periods than originally anticipated. However, this has been offset by a similar reduction in the costs of operating the housing stock.
- 2.5 A £10k bad debt provision has been made for rental income arrears and is in line with the forecast for the year. At 31 March 2021 the company is owed £21k in rent arrears of which £18k is for sums owing for more than one month.
- 2.6 The company's grounds maintenance activity has been in line with the forecast and is now focused on undertaking tree works rather than general gardening services. The company receives a net income of 20% over the cost of the work undertaken by the contractor, the Council's Grounds Maintenance team.

- 2.7 As the Board are aware, the company's trading activities currently do not generate a sufficient surplus to meet its full operating cost including the loan interest and overheads. This is being addressed with the additional investment of £6.9m being made by the Council to support the company's acquisition of 37 new residential units at the former Royal Victoria Hospital (RVH) site in Folkestone. Once fully operational the new units will allow the company to become financially sustainable over the medium term and continue to provide a return to the Council.
- 2.8 The deferred Corporation Tax is based on the unrealised profit from the property valuation gains and will only start to become payable when the company makes an operating profit or should any assets be sold.

3. Balance Sheet at 31 March 2021

- 3.1 The Balance Sheet for the year ending 31 March 2021 with comparative information for the previous financial year and supporting notes is shown in appendix 2 to this paper.
- 3.2 The key issues to highlight from the Balance Sheet are:
- i) The company has made further payments in 2020/21 of £1.227m towards the acquisition of units for the RVH scheme meaning £2.502m has now been paid in advance for this.
 - ii) The Council's equity investment in the company has increased by £2.08m to £3.87m to support the acquisition of the RVH scheme.
 - iii) The bank balance has increased by £0.74m to £0.95m and is mainly due to the Council's equity investment being held towards future payments for the RVH scheme.

4. Shareholder Benefit

- 4.1 The gross shareholder benefit to the Council from Oportunitas for 2020/21, with comparative information for 2019/20, is shown in the table below:

	2019/20	2020/21
	Actual	Actual
	£	£
Interest received	-172,561	-209,936
Cost reimbursement		
Staff Cost	-24,000	-27,907
Members Allowances	-8,923	-9,671
Grounds Maintenance	-17,480	-12,415
Loan repayments	0	-27,444
Total Return	-222,964	-287,373

5. Recommendations

- 5.1 The Board note the provisional outturn financial position for the year ending 31 March 2021.

Appendix 1				
Oportunitas Limited Profit and Loss Account for Year Ending 31 March 2021				
<u>Profit and Loss Account</u>	2019/20	2020/21	2020/21	2020/21
	<i>Outturn</i>	Forecast	Outturn	Variance
	£	£	£	£
Housing Rental				
Rental Income	258,701	269,516	254,221	(15,295)
Rental Expenses	(101,622)	(91,235)	(74,297)	16,938
Net	157,079	178,281	179,924	1,643
Grounds Maintenance				
Income	24,451	15,300	15,519	219
Expenses	(17,478)	(12,240)	(12,415)	(175)
Net	6,973	3,060	3,104	44
Overheads				
Directors Remuneration	(8,924)	(11,361)	(9,671)	1,690
FHDC Officer Support	(24,000)	(23,256)	(27,907)	(4,651)
Operating Expenses	(15,069)	(47,534)	(26,802)	20,732
Total Overheads	(47,993)	(82,151)	(64,380)	17,771
Loan Interest	(173,754)	(208,535)	(209,936)	(1,401)
Loss on Operating Activities	(57,695)	(109,345)	(91,288)	18,057
Unrealised Property Valuation Gains	209,993	0	342,950	n/a
Profit before Tax	152,298	(109,345)	251,662	n/a
Deferred Tax on Profit	(39,898)	0	(65,161)	n/a
Profit after Tax	112,400	(109,345)	186,502	n/a

Appendix 2				
Oportunitas Ltd - Draft Balance Sheet at 31 March 2021				
		31/03/2021		31/03/2020
Fixed Assets	£	£	£	£
Investment Assets	5,195,500		4,852,550	
		5,195,500		4,852,550
Current Assets				
Debtors - RVH Payment in Advance	2,502,050		1,275,000	
Debtors - Other	17,033		21,415	
Bank Account	950,516		206,284	
	3,469,599		1,502,699	
Current Liabilities				
Creditors : Short Term	(29,255)		(24,431)	
VAT Liability	(1,235)		(428)	
Loans (principal due within 12 monhs)	(28,800)		(27,444)	
	(59,290)		(52,303)	
Current Assets less Current Liabilities:		3,410,309		1,450,396
Total Assets less Current Liabilities:		8,605,809		6,302,946
Long Term Liabilities				
Creditors : Long Term				
Loans	(4,252,506)		(4,281,306)	
Deferred Corporation Tax	(134,889)		(69,728)	
		(4,387,395)		(4,351,034)
Total Assets less Total Liabilities:		4,218,414		1,951,912
Capital & Reserves				
Share Capital		1,995		955
Share Premium		3,866,756		1,787,796
Profit & Loss Account		349,663		163,161
		4,218,414		1,951,912

Notes to the Balance Sheet

1. Investment Assets

The company own 12 properties providing 38 units of residential accommodation and one commercial unit for rent. There have been no additions, disposals or major enhancements to the portfolio over the past year. The change in value of the portfolio over the year is summarised below:

	£
Portfolio value at 31 March 2020	4,852,550
Valuation Gains 2020/21	342,950
Portfolio value at 31 March 2021	<u>5,195,500</u>

2. Debtors – RVH Payment in Advance

The company has entered into a contract with RVH Folkestone Limited to purchase 37 residential units in two phases at the site of the former Royal Victoria Hospital site in Folkestone. Ownership of the units will pass to the company on completion of each of the two phases.

	£
Payments in advance 31 March 2020	1,275,000
Payments made 2020/21	1,227,050
Payments in advance 31 March 2021	<u>2,502,050</u>

3. Debtors - Others

	31 March 2021	31 March 2020
	£	£
Rent Arrears	20,923	19,527
Less Bad Debt Provision	<u>(18,880)</u>	<u>(10,000)</u>
Net Rent Arrears	2,043	9,527
Prepayments	8,070	9,681
Trade Debtors	<u>6,920</u>	<u>2,207</u>
Total Debtors	<u>17,033</u>	<u>21,415</u>

4. Creditors (Short Term)

	31 March 2021	31 March 2020
	£	£
Trade Creditors	25,491	20,418
Receipts in Advance	1,889	2,138
Rent Deposit	<u>1,875</u>	<u>1,875</u>
Total Creditors	<u>29,555</u>	<u>24,431</u>

5. Loans

The Council has a loan agreement with the Company to support the acquisition of property (£4.309m) and provide a working capital facility (£0.3m) for short term cash flow requirements. The existing loan facility for property acquisitions was fully utilised during 2019/20 and became repayable during 2020/21 over a 45 year period. The movement in loans over the year is summarised below

	Housing Acquisition Loan £'000	Working Capital Loan £'000	Total Loans £'000
Balance 31 March 2020	(4,309)	-	(4,309)
Advances	-	-	-
Repayments	27	-	27
Balance 31 March 2021	<u>(4,282)</u>	-	<u>(4,282)</u>
Due less 12 months	29		
Due long term	<u>4,253</u>		
Total	<u>4,282</u>		

6. Share Capital and Share Premium

The Council has increased its investment in the Company during 2020/21 by £2.08m. This is part of an agreed investment package of £6.9m to support the Company's expansion to enable it to trade sustainably in the long term while providing a return to the Council as the sole shareholder.

7. Profit and Loss Account Reserve

The Profit and Loss Account Reserve is analysed in the table below

	Operating Loss £'000	Deferred Tax Liability £'000	Valuation Changes £'000	Total £'000
Balance B/F	(317)	(69)	549	163
Movement 2020/21	(92)	(65)	343	186
Balance C/F	(409)	(134)	892	349