

Oportunitas Board Meeting 5 September 2022**Oportunitas Limited – Financial Update for 2022/23****Prepared by Lee Walker**

Summary: This paper provides an initial update of the company's financial position for the financial year ending 31 March 2023, based on income and expenditure to 31 July 2022, including the latest projected outturn for its trading activities. It also summarises the capital expenditure incurred to date on the Royal Victoria Hospital scheme and the funding used towards this.

Recommendations:

The Board note the latest financial position for 2022/23 outlined in this paper.

1. Introduction and Background

1.1 This paper provides an initial update to the Board of the company's financial position for the financial year ending 31 March 2023, based on income and expenditure to 31 July 2022. 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 capital expenditure incurred to date on the Royal Victoria Hospital scheme and the funding used towards this. Further updates on the company's projected outturn for the current financial year are planned to be made to future Board meeting over this period.

2. Profit and Loss Account Projected Outturn 2022/23

2.1 The table below provides an initial projection of the outturn position of the company's trading activities for the financial year to 31 March 2023, compared to the approved business plan.

Profit and Loss Account	2022/23	2022/23	2022/23
	Budget	Projected	Variance
	£	Outturn	£
		£	
Property Rental			
Rental Income	542,370	537,926	(4,443)
Other Income	60,000	60,000	0
Rental Expenses	<u>(257,025)</u>	<u>(266,519)</u>	<u>(9,493)</u>
Net	345,344	331,407	(13,937)
Grounds Maintenance			
Income	15,300	7,500	(7,800)
Expenses	<u>(12,240)</u>	<u>(6,000)</u>	<u>6,240</u>
Net	3,060	1,500	(1,560)
Overheads			
Directors Remuneration	(11,645)	(10,023)	1,622
FHDC Officer Support	(28,000)	(28,000)	0
Operating Expenses	<u>(26,182)</u>	<u>(23,550)</u>	<u>2,632</u>
Total Overheads	(65,827)	(61,573)	4,254
Loan Interest	(286,296)	(257,926)	28,370
P & L Operating Surplus / (Deficit) for period	<u>(3,719)</u>	<u>13,408</u>	<u>17,127</u>
P & L Operating Loss b/f	(468,772)	(468,294)	478
P & L Operating Loss c/f	<u>(472,491)</u>	<u>(454,886)</u>	<u>17,605</u>

2.2 The projected outturn shows a small operating profit of £13k for the year, an improvement over £17k compared to the loss of almost £4k in the business plan. The main reasons for this variance are outlined below:

Variances 2022/23 Business Plan to Projected Outturn		£'000
i)	Rental Income – Mainly due a loss of rent from the vacant office at 15 Grace Hill	(4)
ii)	Housing Rental Expenses – Net increase in repairs and maintenance due to unforeseen works required at 15 Grace Hill (£15k) less a reduction in rental bad debts provision and other minor changes (£6k)	(9)
iii)	Grounds Maintenance – capacity to provide this service is now largely limited to tree maintenance work	(2)
iv)	Overheads Directors Remuneration – saving compared to budget	2
v)	Overheads Operating Expenses – saving on budgeted contingency and other minor expenses	2
vi)	Loan Interest saving – the utilisation of the loan element of the Council’s funding to support the acquisition of the RVH scheme has not been required as early as originally anticipated although the scheme remains on target to be completed by the end of 2022	28
Total reduction in operating loss compared to business plan		17

2.3 The approved business plan and projected outturn for the year currently include the special items for;-

i)	Stock condition survey	£20k
ii)	Major external repairs	£64.3k
iii)	Sale of surplus land at Leyburne Road, Dover (income)	£60k

A verbal update will be made to the Board regarding the current position with these items. If it is necessary to reprofile these items between 2022/23 and 2023/24 this will be reflected in the next financial update to the Board.

2.4 **15 Grace Hill** – An internal leak at the building earlier this year has resulted in significant damage to the vacant office on the ground floor. The estimated cost of the repairs is approximately £25k. The company reported the incident to its insurance company. Unfortunately, the insurance company has initially repudiated the claim on the grounds it is not covered under the policy because the unit had been vacant for a substantial period of time prior to the leak. This decision is being challenged with the insurer and a verbal update on the current position will be made to the Board. However, provision has been made to

include the cost of the repairs to 15 Grace Hill within the projected outturn for the year, with £10k of this being met from the existing repairs and maintenance budget of £72k and the remaining £15k shown as an additional cost.

- 2.5 The company's accumulated operating loss is forecast to reduce by £17k to £455k at 31 March 2023. The Board is reminded that this loss excludes unrealised valuation gains on the company's property portfolio which provisionally stands at £1,207k after tax at 31 March 2022. A further revaluation of the company's property portfolio will be undertaken at 31 March 2023.
- 2.6 **Cost of Living Crisis** – The emerging cost of living crisis currently sweeping the UK economy is expected to have a two-fold impact on the company going forward. Firstly, the company's operating costs for its property portfolio will increase for the communal heating and lighting of the blocks of flats it owns. It will also have to absorb any increase in costs charged by contractors for property repairs and maintenance. Secondly, there will be an increased likelihood of its residential tenants having difficulty meeting their rent payments, raising the prospect of an increase in bad debts over time.
- 2.7 However, at this stage the financial impact to the company of these issues is expected to impact from 2023/24 rather than the current financial year. A detailed review of the company's planned budget for 2023/24, including the estimated impact of inflationary and other economic pressures, will be submitted to the Board over the winter as part of the annual business planning process required by the Council.

3 Capital Expenditure – Royal Victoria Hospital (RVH) Development

- 3.1 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	1.682	4.832	0.112	4.944
Balance	-	1.618	1.618	0.138	1.756

- 3.2 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 £0.5m of the agreed loan facility of £2.47m. The loan facility will be used to complete the purchase of phase 2 of the scheme over the remainder of the current financial year. Interest will accrue on this loan and becomes payable once the scheme is completed.