



## **Oportunitas Board Meeting 22 November 2022**

### **Oportunitas Limited – Financial Update for 2022/23**

**Prepared by Lee Walker**

**Summary:** This paper provides an update of the company's financial position for the financial year ending 31 March 2023, based on income and expenditure to 31 October 2022, including the latest projected outturn for its trading activities. It also summarises the capital expenditure incurred to date on the Royal Victoria Hospital project and the funding used towards this and considers the impact to the delay on Phase 2 of the scheme.

#### **Recommendations:**

- 1) The Board note the latest financial position for 2022/23 outlined in this paper.**
- 2) The Board seek approval from the Council to retain the £60k receipt from the sale of surplus land at 84 Leyburne Road, Dover to be used towards future property maintenance costs.**

#### **1. Introduction and Background**

1.1 This paper provides an 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 October 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 summarises the capital expenditure incurred to date on the Royal Victoria Hospital (RVH) project and the funding used towards this and considers the financial impact from the delay to Phase 2 of the scheme. 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 forecast and the previous projection for the year reported to the Board on 5 September 2022.

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Profit and Loss Account	2022/23	2022/23	2022/23	2022/23
		<i>Previous Projected</i>	<i>Latest Projected</i>	<b>Variance Budget to Latest Projection</b>
	<b>Budget</b>	<b>Outturn</b>	<b>Outturn</b>	
	£		£	£
<b>Property Rental</b>				
Rental Income	542,370	537,926	488,316	(54,053)
Other Income -Land Sale	60,000	60,000	60,000	0
Rental Expenses	(172,725)	(182,219)	(167,132)	5,594
Special Item - Stock Condition Survey	(20,000)	(20,000)	(20,000)	0
Special Item - Major External Repairs & Redecorations	(64,300)	(64,300)	0	64,300
Net	345,344	331,408	361,184	15,840
<b>Grounds Maintenance</b>				
Income	15,300	7,500	7,500	(7,800)
Expenses	(12,240)	(6,000)	(6,000)	6,240
Net	3,060	1,500	1,500	(1,560)
<b>Overheads</b>				
Directors Remuneration	(11,645)	(10,023)	(10,023)	1,622
FHDC Officer Support	(28,000)	(28,000)	(28,000)	0
Operating Expenses	(26,182)	(23,550)	(19,300)	6,882
Total Overheads	(65,827)	(61,573)	(57,323)	8,504
<b>Loan Interest</b>	(286,296)	(257,926)	(245,006)	41,290
<b>P &amp; L Operating Surplus / (Deficit) for period</b>	<b>(3,719)</b>	<b>13,409</b>	<b>60,355</b>	<b>64,075</b>
P & L Operating Loss b/f	(468,772)	(468,294)	(468,294)	478
<b>P &amp; L Operating Loss c/f</b>	<b>(472,491)</b>	<b>(454,885)</b>	<b>(407,939)</b>	<b>64,553</b>

2.2 The projected outturn shows an operating profit of £60k for the year, an improvement over £64k compared to the loss of almost £4k in the business plan. The main reasons for this variance are outlined below:

<b>Variances 2022/23 Business Plan to Projected Outturn</b>		£'000
i)	<b>Rental Income</b> – Reduction mainly due the delay in completing RVH Phase 2 until late 2023.	(54)
ii)	<b>Housing Rental Expenses</b> – Net reduction is mainly due to a reduction in the bad debts provision. Provision of £25k for repairs to the office at 15 Grace Hill is offset by a reduction in other repairs and maintenance, partly due to a saving from the delayed RVH Phase 2 (£9k)	6
iii)	<b>Special Item – External Repairs and Redecorations</b> – The stock condition survey, planned for the current financial year, will need to be	64

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	completed before a decision can be taken to proceed with these works which are now likely to take place from 2023/24	
iv)	<b>Grounds Maintenance</b> – capacity to provide this service is now largely limited to tree maintenance work	(2)
v)	<b>Overheads Directors Remuneration</b> – saving compared to budget	2
vi)	<b>Overheads Operating Expenses</b> – saving on budgeted contingency and other minor expenses	7
vii)	<b>Loan Interest saving</b> – the full utilisation of the loan element of the Council’s funding to support the acquisition of the RVH scheme has been delayed until 2023/24	41
	<b>Total reduction in operating loss compared to business plan</b>	<hr/> <b>64</b> <hr/>

2.3 **Land Disposal** - The sale of the surplus land adjacent at 84 Leyburne Road, Dover for £60k was completed on 24 October 2022. The legal agreement between the Council and the company requires proceeds from property sales to be paid to the Council unless agreed otherwise. Essentially this is a safeguarding measure to protect the Council’s investment in the company for the acquisition of the property for rent. Given the land sold was surplus to requirements, was a not a factor in the original decision to purchase the building itself and the approved business plan endorsed by Cabinet assumed the sale proceeds would be used by the company, the Board should now seek formal permission from the Council to retain the £60k receipt to be used towards property maintenance programme.

2.4 **15 Grace Hill** – The Board is reminded that its insurer had repudiated a claim being made to cover the estimated cost of repair of £25 to the vacant office in the building following a serious leak due to the unit being vacant for a substantial period of time prior the incident. The Council’s Insurance Officer is continuing to pursue this matter with the insurer and a verbal update will be made to the Board regarding the latest position. However, a provision of £25k remains in the projected outturn for the current financial year for the cost of the repairs.

2.5 The company’s accumulated operating loss is forecast to reduce by £64k to £408k 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** – As outlined to the Board at its last meeting, the emerging cost of living crisis is expected to have a two-fold impact to the company with its cost base increasing for inflation on maintenance and energy costs, coupled with an increased likelihood of bad debts on rents over time.

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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 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	1.867	5.017	0.112	5.129
Balance	-	1.433	1.433	0.138	1.571

- 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 construction period, now estimated to be completed in the autumn of 2023. Interest will accrue on this loan and becomes payable once the scheme is completed.

### 4. Financial Impact of Delayed Completion for RVH Phase 2

- 4.1 The delay to the completion of RVH Phase 2 compared to the business plan budgeted forecast adversely impacts upon both 2022/23 and 2023/24 financial years. The existing business plan assumed the units would be let from December 2022, however the latest assumption this will now be from mid-November 2023. Financially, it is estimated this will mean a total reduction in net income to the company of £82k, £11k in 2022/23 and £71k in 2023/23, compared to the approved business plan. The position for both financial years is outlined in more detail in the table below:

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	Budget	Projection	Variance	Original	Latest	Variance
	2022/23	2022/23	2022/23	Projection	Projection	2023/24
	£'000	£'000	£'000	2023/24	2023/24	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Rental Income	68	0	(68)	205	77	(128)
Rental Expenses	(22)	0	22	(53)	(20)	33
Other Expenses	(7)	0	7	(3)	(7)	(4)
Loan Interest	(81)	(52)	28	(120)	(105)	15
Corporation tax	0	0	0	(13)	0	13
Net Total	(41)	(52)	(11)	17	(54)	(71)

- 4.2 The approved business plan projected an accumulated operating loss at 31 March 2024 of £418k. This is now forecast to be £488k, taking account of the impact of the delay to Phase 2 and other changes in the current financial year. Indicatively, previously it was anticipated it may take between 6 to 8 years to offset the accumulated operating loss from future profits. This is now likely to take 8 to 10 years to achieve. However, this will be dependent on the outcome of the stock condition survey in particular. The Board will be asked to consider it business plan and budget for 2023/24 early in 2023 and this will reflect the delay to Phase 2.