

Oportunitas Board Meeting 22 September 2023

Oportunitas Limited – Financial Outturn 2022/23 (Subject to Audit)

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Summary: This paper provides a summary of the provisional financial outturn position for the company for the year ending 31 March 2023. The Profit and Loss Account and the Balance Sheet are subject to an independent Audit.

Recommendations:

The Board note the financial outturn for the year ending 31 March 2023 (subject to Audit).

1. Introduction and Background

- 1.1 This paper provides a summary of the provisional financial outturn position for the company for the year ending 31 March 2023. 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 2023 later this year.

2. Profit and Loss Account 2022/23

- 2.1 The Profit and Loss Account for the year ending 31 March 2023 is shown in appendix 1 to this paper. This includes a variance analysis comparing the outturn to the original forecast for the year, the previously reported outturn projection for the year considered by the Board at its meeting on 6 March 2023 and comparative information for the previous financial year.
- 2.2 The company has made a profit after tax of £356k including an unrealised valuation gain of £309k on its property portfolio. The average valuation increase since over the past year is 3.25%. A summarised list of the property valuations as at 31 March 2023 is shown in appendix 3 to this paper.
- 2.3 Excluding the valuation gain and the associated deferred Corporation Tax on the profit, the company has made an operating profit of £130k for the financial year. A small operating loss was originally forecast, the reason for the profit is due to the stock condition survey and major repairs being reprofiled to 23/24. This is about £49k more than the previous projected outturn position reported to the Board on 6 March 2023. The main reasons for the increase in the operating profit of £134k compared to the original forecast are summarised in the table below:

	£'000
i) Reduction in rents due to a delay in the completion of phase 1 of the RVH site	62
ii) Sale proceeds from land paid to FHDC	60
iii) Reduction in bad debts provision	(17)
iv) Lower than budgeted voids	(22)
v) Lower than budgeted operating costs	(32)
vi) Major repairs and stock condition survey reprofiled to future years	(84)
vii) Reduction in loan interest due to FHDC from delays to payments for Phase Two of RVH scheme	(81)
viii) Other minor changes	(20)
Net increase	<u>(134)</u>

- 2.4 The majority of the company's turnover of £567k has been from its residential property lettings activity (£498k). This is an increase of £216k compared to the turnover of £351k for the previous year and is mainly due to the additional rental stream from the first phase of the RVH scheme and sale proceeds from surplus land.

- 2.5 At 31 March 2023 the company is owed £29.5k in rent arrears of which £17k is for sums owing for more than one month. The existing bad debts provision of £19k is seen as reasonable cover for this meaning no additional charge has been made in the year.
- 2.6 The company's grounds maintenance activity has been scaled back and now focuses 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 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.
- 2.8 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 RVH scheme. Phase 2 of the development is due for completion by the end of September 2023 and 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.

3. Balance Sheet at 31 March 2023

- 3.1 The Balance Sheet for the year ending 31 March 2023 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) Investment Assets - The value of the company's property portfolio of 56 residential units and 1 commercial unit has increased to £9.5m. Additionally, the company has paid almost £2.4m in stage payments towards phase 2 of the RVH scheme, shown as Investment Assets under construction.

ii) The Profit and Loss Reserve is analysed as follows:

	£'000
i) Cumulative property valuation gain	1,937
ii) Cumulative deferred Corporation Tax	(242)
iii) Cumulative operating loss	(348)
Profit and Loss Reserve	1,348

4. Shareholder Benefit

4.1 The gross shareholder benefit to the Council from Oportunitas for 2022/23, with comparative information for 2021/22, is shown in the table below:

	2021/22 Actual £	2022/23 Actual £
Interest received	(208,582)	(207,158)
Cost reimbursement		
Staff Cost	(25,000)	(33,600)
Loan Fee	(12,350)	-
Members Allowances	(9,721)	(8,591)
Grounds Maintenance	(8,488)	-
Sale Proceeds		(60,000)
Loan repayments	(28,800)	(30,222)
Total Return	<u>(292,941)</u>	<u>(339,571)</u>

Appendix 1
Opportunitas Limited Profit and Loss Account for Year Ending 31 March 2023

	<i>Outturn</i>	Original Budget	Previous Projected Outturn	Provisional Outturn	Variance Original Budget to Provisional Outturn
Trading Account	2021/22	2022/23	2022/23	2022/23	2022/23
	£	£	£	£	£
Housing Rental					
Rental Income	340,699	542,370	488,499	498,379	(43,991)
Other Income- Land Sale	0	60,000	0	60,000	0
Rental Expenses	(136,583)	(172,725)	(110,702)	(110,104)	62,622
Special Item - Stock Condition Survey	0	(20,000)	0	0	20,000
Special Item - Major External Repairs	0	(64,300)	0	0	64,300
Net	<u>204,116</u>	<u>345,344</u>	<u>377,797</u>	448,275	102,931
Grounds Maintenance					
Income	9,968	15,300	7,500	8,510	(6,790)
Expenses	(8,488)	(12,240)	(6,000)	0	12,240
Net	<u>1,480</u>	<u>3,060</u>	<u>1,500</u>	8,510	5,450
Overheads					
Directors Remuneration	(9,721)	(11,645)	(10,023)	(8,591)	3,054
FHDC Officer Support	(30,000)	(28,000)	(28,000)	(33,600)	(5,600)
Operating Expenses	(33,859)	(26,182)	(18,161)	(77,242)	(51,060)
Total Overheads	<u>(73,580)</u>	<u>(65,827)</u>	<u>(56,184)</u>	(119,433)	(53,606)
Loan Interest	(208,581)	(286,296)	(242,142)	(207,158)	79,138
Operating Surplus / (Deficit) for period	<u>(76,565)</u>	<u>(3,719)</u>	<u>80,971</u>	130,193	133,912
Unrealised Property Valuation Gain	736,500	0	0	309,250	309,250
Profit before Tax	659,935	(3,719)	80,971	439,443	443,162
Deferred Tax on Profit	(183,512)	0	0	(83,494)	(83,494)
Profit after Tax	476,423	(3,719)	80,971	355,949	359,668

Appendix 2

Oportunitas Limited - Balance Sheet 31 March 2023 (Subject to Audit)

	31/03/2022	31/03/2023
	Outturn	Outturn
	£	£
Fixed Assets		
Investment Assets	9,195,500	9,503,750
Investment Assets Under Construction	1,086,500	2,361,500
	<u>10,281,00</u>	<u>11,865,250</u>
Current Assets		
Debtors - Other	23,664	24,739
VAT Reimbursement	4,150	(330)
Bank Account	32,085	352,890
	<u>59,898</u>	<u>377,299</u>
Current Liabilities		
Creditors : Short Term	(28,843)	(21,429)
VAT Liability	0	0
Loans (principal due within 12 months)	(30,222)	(31,715)
	<u>(59,065)</u>	<u>(53,144)</u>
Current Assets less Current Liabilities:	<u>833</u>	<u>324,155</u>
Total Assets less Current Liabilities:	<u>10,281,833</u>	<u>12,189,405</u>
Long Term Liabilities		
Creditors : Long Term		
Loans	(4,222,284)	(5,690,569)
Deferred Corporation Tax	(242,186)	(242,030)
	<u>(4,464,470)</u>	<u>(5,932,599)</u>
Total Assets less Total Liabilities:	<u>5,817,363</u>	<u>6,256,806</u>
Capital & Reserves		
Share Capital	2,515	2,515
Share Premium	4,906,236	4,906,236
Profit & Loss Account	908,612	1,348,055
	<u>5,817,363</u>	<u>6,256,806</u>

Notes to the Balance Sheet

1. Investment Assets

The change in value of the portfolio over the year is summarised below:

	£
Portfolio value at 31 March 2022	9,194,500
Valuation Gains 2022/23	309,250
Portfolio value at 31 March 2023	<u>9,503,750</u>

2. Investment Assets Under Construction

The company has entered into a contract with RVH Folkestone Limited to purchase 19 residential units in phase two of the former Royal Victoria Hospital site in Folkestone and £2,361,500 has been paid towards the acquisition at 31 March 2023. Ownership of the units will pass to the company on completion of each of the two phases.

3. Debtors - Others

	31 March 2022	31 March 2023
	£	£
Tenants - Gross Rent Arrears	23,619	23,951
Less Bad Debt Provision	<u>(18,880)</u>	<u>(18,880)</u>
Tenants - Net Rent Arrears	4,739	5,071
Rent Cash Due from Agents	7,779	5,561
Net Rent Arrears	12,518	10,632
Prepayments & Other Debtors	11,146	14,106
Trade Debtors	-	-
Total Debtors - Others	<u>23,664</u>	<u>24,739</u>

4. Creditors (Short Term)

	31 March 2022	31 March 2023
	£	£
Trade Creditors	19,452	21,428
Receipts in Advance	-	-
Rent Deposit	-	-
Total Creditors	<u>19,452</u>	<u>21,428</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 2022	(4,253)	-	(4,253)
Advances	(1,500)	-	(1,500)
Repayments	30	-	30
Balance 31 March 2023	<u>(5,723)</u>	-	<u>(5,723)</u>
Due less 12 months	32		
Due long term	<u>5,691</u>		
Total	<u>5,723</u>		

6. Share Capital and Share Premium

The Council has increased its investment in the Company during 2022/23 by £1.5m. 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	(478)	(242)	1,628	908
Movement 2022/23	130		309	439
Balance C/F	(348)	(242)	1,937	1,348