Report to:	**STOCKPORT HOMES MEMBER COMMITTEE** 03 July 2023
Report of:	**EXECUTIVE DIRECTOR OF RESOURCES**
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Type of Report	Assurance
Title of Report:	**FINANCIAL MONITORING UPDATE**
Purpose of Report:	To provide an update to the Member Committee of Stockport Homes' financial performance for the year ended March 2023, and the start of 2023/24.
Recommendation(s):	That the Member Committee note and comment on the latest financial results.
Confidentiality	Non Confidential
Resource Implications	The report highlights the financial performance of each company for the year. Significant resource implications are being seen due to high construction inflation and local pay award offers, resulting in performance below the budgeted targets for 2022/23. Though 2023/24 is not long underway, pressure on the annual budget and beyond can be seen, and budgets will be under pressure in the coming years. Stockport Homes Group has launched its new 3 year Business Plan that will seek to address these issues.
Impact on Risk Appetite and Risk Register	Annual budgets are set in line with risk appetites and this report highlights progress against the budget objectives

Risk Number	Risk Description	Risk Mitigation
6	Delivery of an ambitious and varied new build	The monthly monitoring of development

		development programme is not delivered as planned	expenditure and progress ensures that any variances which may affect the financial position are detected at an early stage and corrective action can be taken.
	7	Property sales are not realised in line with forecasts due to decline in housing market / customer demand or the prevalence of a more risk averse mortgage market	The monthly monitoring of property sales ensures that any variances which may affect the financial position are detected at an early stage and corrective action can be taken.
	15	Insufficient cash resources are available to deliver and sustain the Group and its strategic ambitions and objectives going forwards	Regular cash flow monitoring and management accounts reporting ensures required resources have been identified and put in place as required.
Customer Voice	*Customers are involved in setting the strategic priorities of SHG and budgets are made available to achieve those objectives.*		

Equality, Diversity & Inclusion implications	Budgets support the Group’s ongoing investment into achieving equality, diversity and inclusion across its operations.
Regulatory compliance	Regular financial reporting supports the Group’s compliance with the Governance and Financial Viability Standard
Comments of the Stockport Homes Monitoring Group from the meeting on 20 June 2023	The Customers confirmed that they had no concerns regarding the financial situation and it appears to be managed very effectively.

1 PURPOSE

1.1 The purpose of this report is to update the Stockport Homes Member Committee on the financial performance of Stockport Homes and the budgets it manages on behalf of the Council. An update is provided for the 2022/23 financial year, and the forecast position for 2023/24.

2 FINANCIAL UPDATE MARCH 2023

2.1 As previously reported, significant budget variances were forecast for the financial year for both Stockport Homes and Three Sixty. Though the actual outturn for 2022/23 was better than previously forecast, performance remained below budgeted targets. For Stockport Homes this was most significantly in relation to timing delays from development, and increased repairs, energy and staff costs due to high inflation in the wider economy, which Stockport Homes has only limited ability to control. The HRA management fee for 2023/24 is expected to address much of the increased staffing and repairs costs in Stockport Homes going forward, although budgets are still expected to be under pressure. Three Sixty continued to face related challenges resulting in the budgeted targets for the financial year not being achieved. HRA performance for the year was positive which will partly support the pay award in 2022/23 and ongoing implementation of Project Phoenix.

2.2 The financial position for Stockport Homes is broken down into two distinct areas, with the income and expenditure relating to Shared Ownership Sales shown separately to the remainder of the organisation, to ensure clarity.

2.3 The majority of the annual surplus budgeted for Shared Ownership and outright sales relates to the Hempshaw Lane scheme, with 134 shared ownership/outright sales budgeted for the year from this scheme. As previously reported, construction delays occurred, resulting in sales being pushed back, with 58 units sold during the year. The contractor went into administration towards the end of the year which will result in further delays. As there is currently a substantial waiting list, no issue is expected with finding buyers for the remaining units to be completed. Sales completions started to be realised in July 2022. Five properties at Davenport Park were unsold in March 2022 and were sold in 2022/23, along with 11 properties which staircased during the year, and contribute towards offsetting the impact of the Hempshaw Lane delays.

2.4 Within the rest of the organisation, the cost-of-living crisis and other external economic factors resulted in increased costs within Stockport Homes, most notably with regards to repairs, energy and staffing costs. High inflation, and the related increased cost of living, resulted in a pay offer being made by the Local Government National Employers which was significantly more than the expectations at the point of budget setting and increased costs by around £625k. The increased staff costs add an ongoing recurrent financial pressure which will be seen in future years. High inflation is also impacting upon repairs costs, where costs throughout the construction industry have risen far beyond expectations. The increased costs of materials, fuel, and subcontractors, in addition to higher staff costs resulted in expenditure above budgeted levels, and the expectations are that expenditure will continue at these levels. A similar position is seen with regards to energy costs, where much higher costs than expected were seen both in 2022/23 and further increasing in 2023/24. These external factors result in expenditure being significantly higher than the budget for the year.

2.5 New housing development projects face significant challenges in moving forward. Construction costs have increased across the industry which is reflected in the BCIS index increasing by around 18% from the previous year, along with increases in the loan interest rates required to fund these projects. These cost increases are not met by increases in income, with the Government introducing a 7% cap on social and affordable rent increases in 2023/24, with a further cap also a possibility in 2024/25. These pressures are impacting upon the financial viability of the development pipeline, with options being discussed with the Council to address this, such as additional funding or more flexible loan terms. As a result, in conjunction with challenges to secure contractors, new development schemes have not progressed as expected during the year, and the current financial pressures result in a risk to the development pipeline.

2.6 The Government have published an updated policy on social housing rents, which includes confirmation of the rent increase caps which apply in 2023/24. In addition to the pressures on the development pipeline noted above, costs for both the HRA and SHL are increasing by more than the permitted rent increases, which adds financial pressure to both areas. Business and financial plans have been updated considering this and incorporate the required efficiencies to ensure the long-term sustainability of both the HRA and SHL.

2.7 Three Sixty faced challenges in the year, including the effects resulting from the wider issues within the economy detailed above, which are pushing up prices including materials, fuel, and labour. A profit was achieved for the year, which was a positive outcome, though as previously forecast this was less than the original financial target for the year.

2.8 A positive outturn against the budget was seen in SKylight for the year. Household Support Fund grant was provided by the Council and utilised in the Your Local Pantry and the Furniture Recycling projects to support customers in light of the ongoing cost of living crisis.

2.9 The year-end position for Viaduct remained broadly in line with the approved budget, with both income and expenditure lower than expected because of the delays in development, e.g. Hempshaw Lane as detailed earlier in the report.

2.10 Cash flows continue to be regularly monitored and remain positive across the Group.

Stockport Homes Ltd

Income & Expenditure Account

For the Period March 23 | Period: 12

	Annual Outturn		
	Budget	Actual	Variance
	2022/23	2022/23	£'000
1. SHL excl Shared Ownership Sales			
Income	47,001	47,618	617
Repairs and Maintenance Expenditure	10,757	12,964	(2,207)
Other Expenditure	35,685	35,652	35
Surplus/(deficit)	559	(998)	(1,556)
2. Shared Ownership and Outright Sales			
Total Income	19,008	10,722	(8,285)
Total Expenditure	(16,120)	(8,604)	7,516
Surplus/(deficit)	2,887	2,119	(769)
3. Grand Total			
Total Surplus	3,446	1,121	(2,325)

Viaduct Partnerships Limited

Income & Expenditure Account

For the Period March 23 — **Period: 12**

	Annual Outturn		
	Budget	Actual	Variance
	2022/23	2022/23	£'000
Total Income	11,721	5,064	(6,657)
Total Expenditure	11,717	5,042	6,675
Surplus	4	22	18

Three Sixty SHG Limited

Income & Expenditure Account

For the Period March 23 — **Period: 12**

	Annual Outturn		
	Budget	Actual	Variance
	2022/23	2022/23	£'000
Total Income	21,108	23,074	1,966
Total Expenditure	20,700	22,926	(2,226)
Surplus	408	148	(260)

SKylight Limited

Income & Expenditure Account			
For the Period March 23	Period:		12
	Annual Outturn		
	Budget	Actual	Variance
	2022/23	2022/23	£'000
Total Income	2,209	2,388	179
Total Expenditure	3,014	3,006	8
Surplus	(805)	(618)	187

3 CAPITAL MONITORING

3.1 The HRA Capital Programme budget for the year was £15.6m which incorporates the £2.5m underspend rolled forward from the previous year.

3.2 The programme of works was reviewed during the year as a result of external funding opportunities, with some works re-allocated into 2023/24 to take advantage of these. As a result, an underspend of £2.0m was forecast for the year to be carried forward into future years. The outturn for the year was broadly in line with this expectation with £13.3m spent for the year.

4 NEW BUILD DEVELOPMENT PROGRAMME

4.1 To the end of March 2023 the new build development programme is:-

Ownership	Completed	Under Construction	Pipeline	Total
Non HRA – Rented	510	18	-	528
Non HRA - Shared Ownership	305	154	-	459
Non HRA – Outright Sale		36	-	36
Total Non HRA	**815**	**208**	**-**	**1,023**

HRA – Rented	165	-	145	310
HRA – Shared Ownership	60	16	114	190
Total HRA Owned	**225**	**16**	**259**	**500**

4.2 Risks exist around the development pipeline as discussed as section 2.5.

5 STOCKPORT HOMES BORROWING

5.1 Stockport Homes' rolling loan credit facility to support the ongoing development programme is currently £91.9 million, which will support the shared ownership and affordable homes programmes, along with other potential market rent / outright sale opportunities. The total debt outstanding from this facility as of March 2023 is £69.558m.

6 FINANCIAL UPDATE 2023/24

6.1 This section provides a high-level update on the forecast outturn for 2023/24. As it is still early in the financial year, most areas remain expected to achieve annual budgets. Some significant areas have already emerged however, which will have a financial impact and are detailed below.

6.2 As noted earlier in the report, the contractor at the Hempshaw Lane development went into administration after the 2023/24 budget had been set, and the impact of this on the 23/24 budget has been forecast. The main result of this is to push back the budgeted shared ownership and outright sales for this scheme into 24/25 and hence reduce the 23/24 forecast surplus by around £0.5m. There is some optimism that this position will improve, and the completion of the scheme will progress quickly enough to facilitate some sales in 23/24, so the forecast may change favourably as this becomes clearer.

6.3 An NJC pay offer has been made for 23/24. This is similar to the pay award for 2022/23 and is more than has been budgeted. Though the offer has not been accepted by the Unions, current forecasts are on the basis that the final settlement will be at least the offer that has been made. Based on the current offer, the cost in Stockport Homes will be around £180k more than budgeted, and £92k more than budgeted in Three Sixty, and is subsequently a recurrent pressure for future years. The expectation at this point is that the HRA will again outperform the budget to support this, though this is not certain at this point and will be monitored. The longer-term impact will be considered through the business plan updates later in the year

6.4 There are no significant areas arising for either SKylight or Viaduct to April, where annual budgets remain expected to be achieved.

7 CONCLUSION

7.1 It is clear from the conclusion of 2022/23 and start of 2023/24 that budgets remain under significant pressures from the pay awards and high inflation, in the construction industry. These will result in significant future pressures for Stockport Homes and the HRA. Forecasts will continue to be updated and presented in future reports. It is pleasing to note however that Stockport Homes' pro-active and timely financial management means there is a clear path with risks identified early so that appropriate action can be taken.

8 RECOMMENDATION

That the Member Committee note and comment on the latest financial results.