



Report to:	<b>STOCKPORT HOMES MEMBER COMMITTEE</b>		
	09 October 2023		
Report of:	<b>EXECUTIVE DIRECTOR OF RESOURCES</b>		
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Type of Report	Consultation		
Title of Report:	<b>FINANCIAL MONITORING UPDATE</b>		
Purpose of Report:	To provide an update to the Stockport Homes Member Committee of Stockport Homes' financial performance to August 2023.		
Recommendation(s):	The Stockport Homes Member Committee is recommended to 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 variances are highlighted, and though overall forecasts currently generally remain in line with the budget, repairs costs are higher than expected, and the repairs forecast is under review which could impact the forecast position. Budgets are expected to remain under pressure in the coming years, including the repairs budget as a result of growing demands. 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	The monthly monitoring of

		varied new build development programme is not delivered as planned	development 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.*

<p>Equality, Diversity &amp; Inclusion implications</p>	<p>Budgets support the Group's ongoing investment into achieving equality, diversity and inclusion across its operations.</p>
<p>Regulatory compliance</p>	<p>Regular financial reporting supports the Group's compliance with the Governance and Financial Viability Standard</p>
<p>Comments of the Customer Monitoring Group</p>	<p>The customers highlighted that they had no concerns about the financial management of SHG. They added that the report provides clear explanations with evidence that SHG are adaptable and capable of dealing with the increasing financial pressures.</p> <p>Given the difficulties within the sector, customers felt that Stockport Homes had done well to be in its current position.</p> <p>The customers commended Stockport Homes' position on investing any surplus' back into the community.</p>

# **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.

# **2 FINANCIAL UPDATE AUGUST 2023**

- 2.1 The Group is currently forecast to generally meet budgeted expectations for the year. Whilst in-year shared ownership and outright sales in Stockport Homes are forecast to be significantly less than budgeted, these are being mainly offset by lower costs forecast in other areas within Stockport Homes. Staffing costs are forecast to be around £270,000 more than budgeted as a result of the proposed NJC pay award though is expected to be offset in-year by HRA Management Fee Income. The longer-term impact will be considered through the business plan updates later in the year. Higher than expected repairs costs are reported to date and the repairs forecast is currently under review which could impact the current annual forecast. Higher repairs costs are expected to remain into 2024/25 as a result of a dedicated Work In Progress team being put in place to support high levels of demand. This will be an additional cost to the budget, estimated at £650,000 across 2023/24 and 2024/25. Positive budget performance is forecast for all the other Group companies, particularly in Three Sixty, which results in a favourable Group forecast overall. Performance across the Group is supported by higher returns on cash bank balances than expected.
- 2.2 As previously reported surpluses from property sales are forecast to be less than budgeted for the year, as works at the Hempshaw Lane development are currently paused following the contractor going into administration. The main result of this is to push back the budgeted shared ownership and outright sales for this scheme into 2024/25, and hence the 2023/24 forecast overall surplus is reduced by around £0.5m. There is some optimism that this position could improve, and that the completion of the scheme will progress quickly enough to facilitate some sales in 2023/24, so the forecast may change favourably as this becomes clearer going forward. Proposals to complete the scheme are currently being worked up, including the costs to complete the scheme and any further grant funding to offset these. Sales at other schemes are progressing well including at the first phase of Melford Road recently completed by Three Sixty.
- 2.3 The forecast position for Three Sixty is positive to the budget and much improved from recent years. Income is expected to be greater than budgeted, mainly because of more Construction related activities as Three Sixty support SHG in completing the Melford Road and Hempshaw Lane developments, resulting in a greater surplus overall. Three Sixty have completed the first phase of 16 properties at Melford Rd and are now moving on to complete a further 20 partially completed properties.

- 2.4 Forecasts for both Viaduct and SKylight remain broadly in line with approved budgets. Forecasts for both areas are favourable to the budget, mainly as a result of higher returns on bank cash balances than expected.
- 2.5 Cash flows continue to be regularly monitored and remain positive across the Group.

**Stockport Homes Ltd**

**Income & Expenditure Account**

For the Period August 23

Period:

5

	Annual Forecast		
	Budget	Forecast	Variance
	2023/24	2023/24	£'000
<b><u>1. SHL excl Shared Ownership Sales</u></b>			
Income	55,108	55,513	405
Repairs and Maintenance Expenditure	13,380	13,481	(102)
Other Expenditure	41,071	41,066	5
Surplus/(deficit)	658	966	308
<b><u>2. Shared Ownership and Outright Sales</u></b>			
Total Income	13,939	6,287	(7,652)
Total Expenditure	(12,168)	(5,261)	6,907
Surplus/(deficit)	1,771	1,027	(744)
<b><u>3. Grand Total</u></b>			
Total Surplus	2,429	1,993	(436)

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**Viaduct Partnerships Limited**

**Income & Expenditure Account**

For the Period August 23

Period: 5

Annual Forecast			
	Budget	Forecast	Variance
	2023/24	2023/24	£'000
Total Income	7,740	5,863	(1,878)
Total Expenditure	7,704	5,802	1,902
Surplus	37	61	24

**Three Sixty SHG Limited**

**Income & Expenditure Account**

For the Period August 23

Period: 5

Annual Forecast			
	Budget	Actual	Variance
	2023/24	2023/24	£'000
Total Income	23,314	26,470	3,156
Total Expenditure	22,929	25,778	(2,849)
Surplus	385	692	307

## SKYlight

### Income & Expenditure Account

For the Period August 23

Period: 5

	Annual Forecast		
	Budget	Actual	Variance
	2023/24	2023/24	£'000
Total Income	2,777	2,964	187
Total Expenditure	3,784	3,917	(133)
Surplus	(1,007)	(953)	54

### 3 CAPITAL MONITORING

- 3.1 The HRA Capital Programme budget for the year is £15.3m which incorporates the £2.3m underspend rolled forward from the previous year.
- 3.2 At the end of August 2023 £5.2m has been spent. Works are expected to increase over the coming months, with a year-end forecast currently of £14m. This is less than the budget due to a saving on the York Street works, and £0.9m which has been deferred into future years as part of the wider Lancashire Hill plan. Other works are currently being planned to be brought forward into 2023/24 as a result, to maximise the use of the annual budget, and hence future forecasts are expected to increase towards budgeted levels

### 4 NEW BUILD DEVELOPMENT PROGRAMME

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

Ownership	Completed	Under Construction	Pipeline	Total
Non HRA – Rented	512	16	-	528
Non HRA - Shared Ownership	322	133	-	455
Non HRA – Outright Sale	-	29	-	29

<b>Total Non HRA</b>	<b>834</b>	<b>178</b>	<b>-</b>	<b>1,012</b>
HRA – Rented	165	30	194	389
HRA – Shared Ownership	76	-	95	171
<b>Total HRA Owned</b>	<b>241</b>	<b>30</b>	<b>289</b>	<b>560</b>

- 4.2 As previously reported new housing development projects face significant challenges in moving forward. Construction costs have significantly increased across the industry, along with increases in the interest rates on the borrowing 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, these pressures result in a risk to the development pipeline.

## **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 August 2023 is £74.320m.

## **6 CONCLUSION**

- 6.1 Budgets remain under significant pressures from the pay awards and high inflation, in particular 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.

## **7 RECOMMENDATION**

The Stockport Homes Member Committee is recommended to note and comment on the latest financial results.