Report to:	**STOCKPORT HOMES MEMBER COMMITTEE** 12 February 2024
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 Stockport Homes Members Committee on Stockport Homes' financial performance to December 2023.
Recommendation(s):	That 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 variances are highlighted, and higher repairs costs have resulted in a revised budget being approved for Stockport Homes. Budgets are expected to remain under pressure in the coming years, including the repairs budget because 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 varied new build development	The monthly monitoring of development expenditure and

		programme is not delivered as planned	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 .
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.		

1 PURPOSE

1.1 The purpose of this report is to update the Stockport Homes Members Committee on the financial performance of Stockport Homes and the budgets it manages on behalf of the Council.

2 FINANCIAL UPDATE DECEMBER 2023

2.1 Previous reports have highlighted the significant pressures in Stockport Homes, mainly from higher repairs costs and lower property sales surpluses, resulting in the expectation that the original approved budgeted surplus would not be achieved. Repairs costs in Stockport Homes Group (across Stockport Homes and Three Sixty) have remained significantly higher than the original budget and are currently forecast to be around £1.5m higher than the original budget set. As a result of these pressures, in line with the Financial Regulations the SHG Board approved a new budget for Stockport Homes at their December meeting, based on the annual forecast at the end of October. The new budget figure for repairs is shown in the table below. The new budget reduced the original budgeted surplus for 2023/24 from £2,429,000 to £755,000 mainly as a result of the higher repairs costs but also incorporating the higher staffing costs and lower surpluses from property sales highlighted previously, along with some offsetting underspends across various budgets. The budget presented in this report, and the associated accounts, reflect this new budget.

2.2 Increased costs of repairs are not unique to SHG. This is a sector and national pressure, with feedback from other housing providers presenting similar issues. The Regulator's Sector Risk Profile November 2023[1] also highlights this as a risk area: *'Current sector expenditure on repairs and maintenance is at a record level and providers forecast further large increases'.* It is likely that this will remain a pressure for both SHG and the HRA, with insufficient resources expected to be available in the HRA in future years to offset the additional costs incurred by SHG.

2.3 Since the previous report, proposals to move both the Melford Road and Hempshaw Lane schemes forward have progressed, working in conjunction with the Council. Works have since started on site at both schemes, which will result in 146 additional housing properties when complete.

2.4 As expected, the forecast costs to complete both schemes are now significantly higher than originally anticipated, as a result of high construction inflation since the schemes were tendered, in conjunction with the impact of the previous contractors going into administration. Additional grants have been secured to offset some of the additional costs, though the overall financial benefits expected from both schemes are now much less than originally expected. Some of the properties at Melford Road are now expected to cost more to build than will be sold for, which is known as impairment. The accounting standards require this impairment to be recognised in the current financial year, and as such £1.9m of

[1] https://www.gov.uk/government/publications/sector-risk-profile-2023

additional one-off costs are included within the annual forecast for Stockport Homes. This results in an in-year deficit forecast for Stockport Homes and the Group as a whole.

2.5 The other Group companies are operating in line with approved budgets. Three Sixty, is undertaking more Construction related activities as it supports SHG in completing the Melford Road and Hempshaw Lane developments. Performance across the Group is supported by higher returns on cash bank balances than expected as a result of higher interest rates.

2.6 Cash flows continue to be regularly monitored and remain positive across the Group for the coming year, although longer term impacts of all the pressures mentioned above will lead to reduced cash balances going forward. Rigorous cash flow monitoring and forecasting will be undertaken to ensure mitigation plans can be put in place to manage cashflows in the future

Stockport Homes Ltd

Income & Expenditure Account

For the Period December 23 **Period: 9**

	Annual Forecast		
	Budget	**Forecast**	**Variance**
	2023/24	**2023/24**	**£'000**
1. SHL excl Shared Ownership Sales			
Income	55,758	55,243	(515)
Repairs and Maintenance Expenditure	15,267	14,914	353
Other Expenditure	40,556	39,699	857
Surplus/(deficit)	(65)	631	696
2. Shared Ownership and Outright Sales			
Total Income	6,287	6,477	189

Total Expenditure	(5,467)	(5,603)	(136)
Surplus/(deficit)	820	874	54

3. Grand Total

Total Surplus before Impairment	755	1,504	748
Impairment	-	(1,922)	(1,922)
Total Surplus after Impairment	755	(417)	(1,172)

Viaduct Partnerships Limited

Income & Expenditure Account

For the Period December 23	**Period:**	**9**	
	Annual Forecast		
	Budget	**Forecast**	**Variance**
	2023/24	**2023/24**	**£'000**
Total Income	7,740	6,890	(851)
Total Expenditure	7,704	6,837	866
Surplus	37	53	16

Three Sixty SHG Limited

Income & Expenditure Account

For the Period December 23	**Period:**	**9**	
	Annual Forecast		
	Budget	**Actual**	**Variance**
	2023/24	**2023/24**	**£'000**
Total Income	23,314	27,884	4,570

Total Expenditure	**22,929**	**27,504**	**4,575**
Surplus	**385**	**381**	**(4)**

SKylight

Income & Expenditure Account			
For the Period December 23	**Period: 9**		
	Annual Forecast		
	Budget	**Actual**	**Variance**
	2023/24	**2023/24**	**£'000**
Total Income	**2,777**	**2,991**	**214**
Total Expenditure	**3,784**	**3,866**	**(82)**
Surplus	**(1,007)**	**(875)**	**132**

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.

At the end of December 2023 £8.8m has been spent. The year-end forecast is £14.4m which is less than the budget. This is because £0.9m of works have been deferred into future years as part of the wider Lancashire Hill plan.

4 NEW BUILD DEVELOPMENT PROGRAMME

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

Ownership	Completed	Under Construction	Pipeline	Total
Non HRA – Rented	512	16	-	528
Non HRA - Shared Ownership	317	133	-	450
Non HRA – Outright Sale	-	29	-	29

Total Non HRA	**829**	**178**	**-**	**1,007**
HRA – Rented	166	65	159	390
HRA – Shared Ownership	76	14	81	171
Total HRA Owned	**242**	**79**	**240**	**561**

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. The resulting pressures are impacting upon the financial viability of the development pipeline, with options being discussed with the Council to address this, such as utilising additional funding through the funds held by the Council for development, 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 completion of the current development schemes underway. The total debt outstanding from this facility as at December 2023 is £63.568m.

6 CONCLUSION

6.1 It is clear that budgets are under significant pressures from high inflation, in particular in the construction industry. These will result in future pressures for Stockport Homes and the HRA. Forecasts will continue to be updated and presented in future reports.

7 RECOMMENDATION

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