



Report to:	<b>STOCKPORT HOMES MEMBER COMMITTEE</b>		
	01 July 2024		
Report of:	<b>EXECUTIVE DIRECTOR OF RESOURCES</b>		
Contact Officer and contact details	<i>John Kennedy, Assistant Director of Finance</i> 0161 474 2868 <a href="mailto:john.kennedy@stockporthomes.org">john.kennedy@stockporthomes.org</a>		
Type of Report	Assurance		
Title of Report:	<b>FINANCIAL MONITORING UPDATE</b>		
Purpose of Report:	To provide an update to the Stockport Homes Members Committee on Stockport Homes' financial performance for the year ended March 2024 and the start of 2024/25.		
Recommendation(s):	The Stockport Homes Members 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, including higher repairs costs which resulted in a revised budget being approved for Stockport Homes. Financial pressures are expected to continue. Stockport Homes has put in place measures to address these challenges going forward. Despite the challenges in 2023/24, Stockport Homes achieved a surplus overall, with incoming resources to the Group and Stockport family by way of Three Sixty gaining more commercial work.		
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
	17	SHG is not able to meet the long-	Regular management

		term stock investment/zero carbon requirements of homes, communal areas and neighbourhoods	accounts reporting ensures progress against annual targets is clear. Analysis of actual performance against assumptions will inform delivery of the longer-term strategy and enable proactive actions to be taken
	9	SHG does not deliver its approved Business Plan	Approved Business Plans inform the annual budgets set for each SHG company. Regular management accounts reporting ensures progress against annual budgeted targets is clear for all SHG companies and informs future Business Plans.
	10	Available cash resources, income collection and stress testing are insufficient to deliver and sustain SHG and its strategic ambitions	Regular cash flow monitoring, management accounts reporting and stress testing, ensures performance is monitored, risks are identified, and required resources and actions have been 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.

# **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 MARCH 2024**

- 2.1 Overall, SHG finished 2023/24 in a positive position. Though the original budget was not achieved this had been expected for some time, and a better outturn for the year was achieved than had been previously forecast. Whilst a deficit had previously been forecast for Stockport Homes and the Group as a whole, changes since the previous report resulted in a surplus position for both.
- 2.2 Previous reports highlighted the significant pressures in Stockport Homes, mainly from higher repairs costs and development pressures including lower property sales surpluses, resulting in the expectation that the original approved budgeted surplus would not be achieved. Repairs costs in Stockport Homes remained significantly higher than the original budget at £1.4m 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. 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 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.
- 2.3 Since the previous report, the contract to complete the final phase of the Melford Rd development has been tendered, and the resulting costs to complete the scheme are less than previously expected. As a result, the impairment costs recognised in the final accounts (from some of the properties at Melford Road costing more to build than will be sold for) were less than previously expected which was a significant factor in improving the year-end position.
- 2.4 The other Group companies operated in line with approved budgets. Three Sixty undertook 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 because of higher interest rates.
- 2.5 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.
- 2.6 The external audit of SHG's 2023/24 annual accounts was completed on 29<sup>th</sup> May 2024, with no issues arising.

2.7 The HRA outturn for 2023/24 was a surplus for the year of £712,000 which is £297,000 better than budgeted. Of this, £615,000 has been paid to Stockport Homes in 2024/25 to go towards the recovery of costs already incurred by SHL in relation to the implementation of the new housing management system. Positive outcomes are mainly as a result of lower interest and bad debts, along with higher income from PV FIT income than budgeted, and higher rental income due to better than budgeted voids and RTBs. During the year, there was an increase to the Management Fee of £443,000 to reflect the additional 2023-24 pay award cost and SHPS pension increase.

## Stockport Homes Ltd

### Income & Expenditure Account

For the Period March 24

Period:

12

	Annual Outturn		
	Budget	Actual	Variance
	2023/24	2023/24	£'000
<b><u>1. SHL excl Shared Ownership Sales</u></b>			
Income	55,782	56,769	987
Repairs and Maintenance Expenditure	15,267	15,610	(343)
Other Expenditure	40,580	39,753	827
Surplus/(deficit)	(65)	1,406	1,470
<b><u>2. Shared Ownership and Outright Sales</u></b>			
Total Income	6,287	6,262	(25)
Total Expenditure	(5,467)	(5,508)	(40)
Surplus/(deficit)	820	754	(66)

### 3. Grand Total

Total Surplus before  
Impairment

755	2,160	1,405
-	(1,478)	(1,478)
755	682	(73)

Impairment

Total Surplus after Impairment

### Viaduct Partnerships Limited

#### Income & Expenditure Account

For the Period March 24

Period: 12

Annual Outturn			
	Budget	Actual	Variance
	2023/24	2023/24	£'000
Total Income	7,740	5,537	(2,203)
Total Expenditure	7,704	5,484	2,220
Surplus	37	53	16

### Three Sixty SHG Limited

#### Income & Expenditure Account

For the Period March 24

Period: 12

Annual Outturn			
	Budget	Actual	Variance
	2023/24	2023/24	£'000
Total Income	23,314	29,938	6,624
Total Expenditure	22,929	29,286	6,357
Surplus	385	652	267

## SKylight

### Income & Expenditure Account

For the Period March 24

Period: 12

	Annual Outturn		
	Budget	Actual	Variance
	2023/24	2023/24	£'000
Total Income	2,777	2,961	185
Total Expenditure	3,784	3,784	0
Surplus	(1,007)	(822)	185

HRA 2023-24 Q4	Annual Budget	Annual Outturn	Variance (Adv)/Fav
Operating Income	62,832	61,262	(1,570)
Operating Expenditure	(62,447)	(60,622)	1,825
Impact of capital financing and investment income	30	72	42
Surplus/(deficit)	415	712	(297)
Brought Forward Surplus from 2022-23	1,000	1,000	-
Future Investment Reserve	(318)	(615)	297
Minimum Balances	1,097	1,097	-

### 3 CAPITAL MONITORING

- 3.1 The HRA Capital Programme budget for the year was £15.3m which incorporated £2.3m underspend rolled forward from the previous year.
- 3.2 At the end of March 2024 £14.4m had been spent. This results in a year end underspend of £0.86m which will be carried over into 2024/25. This is mainly 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 March 2024 the new build development programme is:-

Ownership	Completed	Under Construction	Pipeline	Total
Non HRA – Rented	506	22	-	528
Non HRA - Shared Ownership	318	133	-	451
Non HRA – Outright Sale	-	29	-	29
<b>Total Non HRA</b>	<b>824</b>	<b>184</b>	<b>-</b>	<b>1,008</b>
HRA – Rented	174	37	156	367
HRA – Shared Ownership	76	14	73	163
<b>Total HRA Owned</b>	<b>250</b>	<b>51</b>	<b>229</b>	<b>530</b>

- 4.2 As previously reported new housing development projects face significant challenges. 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. These pressures, together with the challenge to find contractors, 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 March 2024 was £65.350m.



## **6 FINANCIAL UPDATE 2024/25**

- 6.1 This section provides a high-level update on the forecast outturn for 2024/25. 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 An annual surplus of £747,000 is forecast for Stockport Homes against a budget of £1,110,000. The largest changes in the annual forecast relate to Development activity, both across schemes being delivered for the Council's HRA and Stockport Homes' owned schemes. Since the budget was set, progress with the Council for starting new HRA schemes is not as advanced as expected at this point, particularly with the London Rd scheme which took longer to move forward than expected due to considerations around the additional grant funding required and funding options generally. This results in less HRA Development Fee income than budgeted. With regards to Stockport Homes' development schemes, completions at the Andrew St and Hempshaw Lane schemes are expected to be later than at the point of budget setting, due to the construction delays which have previously been reported. Less rental income is expected within 2024/25 within Stockport Homes as a result due to this timing delay.
- 6.3 As part of Stockport Homes' Transformation Strategy, a series of in-depth service reviews are taking place. A full-scale review has taken place to ensure the pressures on repairs budgets are fully understood, and that pro-active measures can be put in place to ensure costs do not continue to rise above approved budgets. This has been done in conjunction with customers. Reasons for increased repairs costs are complex, ranging from increased customer expectations and regulatory requirements, through to inflationary cost pressures generally. Any efficiencies from the actions coming out of the review will be tracked within the repairs budget over the coming year.
- 6.4 A pay award offer has been made for 2024/25 by the National Employers which will apply to those employees whose pay is determined by the NJC. The offer has not yet been accepted by the Unions. The outcome of the current offer is broadly in line with the budget.

## **7 CONCLUSION**

- 7.1 The year-end out-turn for Stockport Homes was an overall surplus, despite the numerous challenges emerging throughout the year. Forecasting and tracking throughout the year, timely financial management, and the swift close-down of the 4 sets of company accounts, alongside a clear audit and audit sign-off by early June demonstrates that Stockport Homes has efficient and sound systems of financial control and oversight.

7.2 The 2024/25 financial year will undoubtedly continue to be a challenging environment, with the focus on completing two of the largest development schemes in Stockport being paramount. Financial cashflows are always kept up to date. Stockport Homes will be reviewing its efficiency targets and actions required to ensure financial stability longer term, in an environment of increasing costs.

## **8 RECOMMENDATION**

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