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<tr><td>Report to:</td><td>Cabinet</td><td>Date of Meeting:</td><td>7 October 2021</td></tr>
<tr><td>Subject:</td><td colspan="3">Phase 1 Business Plan for Sandway Homes Limited</td></tr>
<tr><td>Report of:</td><td>Chief Executive and Executive Director Corporate Resources and Customer Services</td><td>Wards Affected:</td><td>All</td></tr>
<tr><td>Cabinet Portfolio:</td><td colspan="3">Cabinet Member - Communities and Housing</td></tr>
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Summary:

This report provides Cabinet with an update on the progress and delivery of new homes as part of the Phase 1 Business Plan for Sandway Homes Limited and follows on from previous reports provided to Members on the development and activities within the Company.

In providing this information, the report will provide an update on delivery of construction activity and forecast financial performance, comparing this to the previously agreed Business Plan and highlighting key decisions required by the Council.

The report will also provide details of the proposed approach to Phase 2 Business Planning.

Recommendation(s):

Cabinet are requested to:-

1. Note the revisions to the Phase 1 Business Plan as provided by the Company to the Council as at September 2021, including changes to the financial forecast (including sales income), duration of the programme, number of units to be built and peak debt;
2. Approve these revisions to the Phase 1 Business Plan subject to the receipt of an exit strategy that details the financial risk to the council that would arise should the revised peak debt of £8.3m be reached and the company failed to continue to operate- Details of this will be presented to Cabinet in a follow up report upon receipt;
3. Note that negotiations with the Liverpool City Region Combined Authority relating to the £1.05m grant allocation for Buckley Hill Lane are on-going, due the revised scheme of 63 units reducing from the previously approved 70. This could present a risk if the Company fail to achieve the drawdown timescales associated with this fund, and that this could impact the financial forecast presented;
4. Note the work ongoing in respect of the funding, and future sale of the affordable homes within the Phase 1 programme to Registered Provider Together Housing. When this issue is concluded, details will be presented to Cabinet in a follow up report for consideration.

5. Approve that any further material variations to this revised financial forecast be presented back to cabinet for further decision; and
6. Approve that consideration of the Phase 2 Business Plan be deferred until 2022 or such time that the Council has assurance that the financial objectives of Phase 1 have been or will be met. This will require projected sales income having been achieved and the financial risk to the council having been reduced.

Reasons for the Recommendation(s):
Since 2016 the Council has been considering its role in the provision of housing throughout the Borough to complement an active third and private sector market.

There is significant demand for housing sites and housing development within Sefton, with over 11,000 housing units being required, over the Local Plan period, in order to meet with the local housing demand.

There is a national shortfall of circa 1m homes (of which 400,000 fall into affordable homes) whilst across the Liverpool City Region a total of circa 50,000 housing units will be required in the medium term. Sandway Homes Limited seeks to increase housing completions and the availability of choice for residents and those wishing to live in Sefton. This will be achieved by working with the council and stakeholders including Homes England and the Liverpool City Region Combined Authority to leverage in brownfield enabling funds to assist the local authority in proactively re-developing sites included in its brownfield disposal register

Alternative Options Considered and Rejected: (including any Risk Implications)
There are no alternative options to be considered.

What will it cost and how will it be financed?

(A) Revenue Costs

All financial implications are discussed in detail within the report

(B) Capital Costs
All financial implications are discussed in detail within the report

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): All resource implications are contained within the report
Legal Implications:

Equality Implications: There are no equality implications
Climate Emergency Implications: The recommendations within this report will

Have a positive impact	N
Have a neutral impact	N
Have a negative impact	Y
The Author has undertaken the Climate Emergency training for report authors	Y

Contribution to the Council's Core Purpose:

Protect the most vulnerable:
Facilitate confident and resilient communities: The proposals will add housing choice within the heart of Sefton's communities, facilitating confidence.
Commission, broker and provide core services: Projected returns to the Council, as sole shareholder, from SHL which will provide revenue to contribute towards service provision.
Place – leadership and influencer: Housing is a significant contributor to building a better sense of place
Drivers of change and reform: Physical infrastructure (housing) is a significant contributor to and enabler/catalyst for change.
Facilitate sustainable economic prosperity: The proposals will make a significant contribution to the local economy, both by way of a direct impact to construction and civil engineering jobs, but additionally providing a housing supply and choice for residents wishing to live and work in Sefton and across Merseyside
Greater income for social investment: The approved Business Case identifies the opportunity for SHL to commission a greater level of social value.
Cleaner Greener: The proposals will be complaint with the Building Regulations and other Planning and Habitat regulations meaning Sefton builds cleaner and greener

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD 6545/21) and the Chief Legal and Democratic Officer (LD 4746/21) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

There have been no external consultations.

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Introduction/Background

1.1 Cabinet have previously approved the Phase 1 Business Plan for Sandway Homes Limited at the meeting in July 2019, with a detailed update being provided at the meeting in September 2020. This report provides a further update on the delivery of that Phase 1 Business Plan and details the key variations since last year and the decisions required from members.

2.0 Approved Phase 1 Business Plan

2.1 At the Cabinet meeting of July 2019, the Phase 1 Business Plan was agreed with the following key outputs and financial performance:

Table 1: Delivery of houses by site as at September 2020

Site	Units to be built	Start date (construction)	End date (Sales completion)
Meadow Lane, Ainsdale	48	May 2020	May 2022
Barton Close, Crossens	30	May 2020	April 2022
Buckley Hill Lane, Netherton	70	February 2021	April 2023
Total	**148**		

Table 2: Financial Performance as at September 2020

	Business Plan Forecast £
Income (House Sale and Grant)	29,124,678
Expenditure (Construction and Fees)	(23,345,158)
Expenditure (Company Overheads)	(1,622,090)

Expenditure (Land Acquisition)	(2,232,000)
Interest	(627,376)
Earnings Before Tax	**1,298,054**
Corporation Tax	(246,630)
EARNINGS AFTER TAX (Dividend)	**1,051,424**

2.2 In order to support the Company's cashflow, it was agreed that the Council would provide a debt facility that would be charged interest and would be fully repayable. This peak debt level was approved by Cabinet at £5.1m with the estimation that this would be reached in December 2021 and would be fully repaid in June 2023. This facility was supported by a formal loan agreement the detail of which was also approved by Cabinet in order to progress the Company set up, and underwrite fees and construction costs associated with the three Phase 1 sites.

3.0 Phase 1 Business Plan- Update September 2021

3.1 Since the last Business Plan update provided to Cabinet in September 2020, there have been a number of changes within the company and the full impact of the COVID 19 pandemic on the housing sector and wider economy has been re-evaluated. As the Company has moved into the construction delivery phase, the previous secondments from the Council to the positions of Managing Director and Finance Director within the Company came to an end on 31 May 2021 and the company now has a full time Managing Director and is in the process of making further full-time appointments to its management team.

3.2 Following these appointments, a full review of the Business Plan has been undertaken as would be expected. This was considered timely by the Company not only in ensuring that the new management team had full ownership, accountability and understanding of the Plan but also to take account of changes in the housing sector arising from the COVID pandemic including supply chain issues and sales volumes and levels.

3.3 This review has now been completed with the findings communicated to Council officers and these are detailed in the following section of the report.

Construction and Sales timelines

3.4 As reported earlier in this report, Phase 1 is focussed on 3 sites with a previously approved completion date of April 2023. Following the review of the Phase 1 Business Plan the following changes are proposed to the programme

Table 3 : Revised Programme timeline

	As per approved Business Plan			Estimated following Business Plan review		
Site	Units to be built	Start date (construction)	End date (Sales completion)	Units to be built	Start date (construction)	End date (Sales completion)
Meadow Lane, Ainsdale	48	May 2020	May 2022	48	December 2020	March 2023
Barton Close, Crossens	30	May 2020	April 2022	30	February 2021	November 2022
Buckley Hill Lane,	70	February 2021	April 2023	63	March 2022	March 2025

Netherton						
Total	**148**			**141**		

3.5 From this table it can be seen that that construction at each of the sites has been delayed and this has resulted in the estimated end date for Phase 1 moving from April 2023 to March 2025. As can be seen, these are material changes to the previous programme provided and approved by Cabinet with the company advising the council that this is due to 2 key factors:-

<u>Supply chain</u>

3.6 Due to global supply chain and covid-19 related issues, the programme for handover of homes on the phase 1 schemes will be materially later than the dates assumed in the original business plan. The primary reason for handovers having to shift to the back of the programme is mainly (but not solely) due to delays relating to availability of timber frames. Timber frame was identified as a more sustainable construction solution ahead of the Covid-pandemic- hence schemes were designed accordingly.

3.7 The Timber frame market volatility is down to various external factors within the timber industry that have led to Increased demand (50% increase on 2020 figures and 18% increase on 2019), due to:

a. Rising house prices leading to increased housing development;
b. Sustainability of timber as opposed to traditional construction;
c. Thermal properties achieving lower u-values required for building control, hence timber frame is now the favoured form of construction;
d. Speed of construction and ability to achieve better certainty within the construction programme;
e. Decease in the Canadian lumber market leading to USA purchasing large quantities of European stock;
f Cost of importing materials and slower transporting times due to Covid-19 restrictions which are impacting major ports and routes; and
g. Production stopping/slowing down due to pandemic

In addition, there is uncertainty in the bricklaying labour market and labour shortages;

<u>Delays to start on site</u>

3.8 On 2 of the sites within the phase 1 Business Plan there has also been significant delays that will impact on construction, timing of sales and income receipts, namely:-

- There was an 8 week delay on Barton Close due to a site access dispute; and
- The original Business Plan included income for Buckley Hill being generated 3 months after it was starting on site -this is considered un-deliverable and the forecast has been re-profiled accordingly. This will have an adverse impact as income now lags behind forecast expenditure.

3.9 As a result of both of these issues and the full review of all income and expenditure assumptions there would be an impact on the following:-

- Overall profitability of Phase 1;
- Timing of the final dividend back to the Council from the Company;
- Level of peak debt that the Company would require;
- Duration of debt facility being required
- Overall risk exposure for the council
- Timing of consideration of Phase 2 activities

Each of these issues is considered in turn in the following section of the report

Financial Performance and Risk- Update June 2021

3.10 As reported earlier in this report, it was originally anticipated that Phase 1 would deliver a profit / dividend to the council upon completion of £1.051m, in addition to the capital receipts from the 3 sites of £2.2m. Following the review of this first phase the following revised financial forecast has been developed.

Table 4: Updated financial forecast as at September 2021

	Business Plan Forecast September 2021 £	Business Plan Forecast September 2020 £
Income (House Sale and Grant)	30,269,816	29,124,678
Expenditure (Construction and Fees)	-23,182,761	-23,345,158
Expenditure (Company Overheads)	-2,758,776	-1,622,090
Expenditure (Land Acquisition)	-2,232,000	-2,232,000
Interest	-428,740	-627,376
Earnings Before Tax	**1,667,539**	**1,298,054**
Corporation Tax	-316,832	-246,630
EARNINGS AFTER TAX (Dividend)	**1,350,707**	**1,051,424**

3.11 From this review it can be seen that:-

- **Sales income:** The positive variance on sales income (which is an average increase of £8k per home) is reflective of the latest market appraisal linked to the first release of homes at Meadow Lane and Barton's Close, plus the latest valuation report for Buckley Hill Lane. House prices in the UK, and particularly in the Northwest, have increased over the course of the pandemic, and this increase will help to mitigate some of the increased costs associated with a longer programme e.g. company overheads which are due to the overall construction delays.

  Overall, the revised position on profit from Phase 1 is £1.350m, an increase of £0.299m from the previously approved plan.
  Members are asked to note that the Company has in place an agreement with the Combined Authority (via the Council) for the receipt of over £1m in grant funding in respect of Buckley Hill Lane to support site development and abnormal costs. With the reduction in units on the site (from 70 to 63), discussions are currently ongoing with the Combined Authority in respect of how this may impact that grant award- the Company has submitted a revised Business Case for approval and this will be considered in November 2021- at this stage the current forecast of this grant has been revised down to £0.945m (based on £15k per home) so as to reflect a more prudent assumption. If the full grant is received then this would be a positive variation and similarly if no grant is supported this would be a negative variation. The company advise that the current assumption is reflective of the advice provided by the Combined Authority.

Members are also asked to note that work is ongoing in respect of the sale of the affordable houses across Phase 1 to a Registered Provider. A key aspect and assumption within the business case is in order to support viability and the fact that a provider would pay between 55-65% of market value for these homes, Homes England would also provide grant to the Registered Provide to support their acquisition.

At present the business case assumes that this support will be received, however in order for Homes England to confirm this payment further work is required. Despite the up lift in value of the homes as referenced earlier in the report, failure to attract the Homes England grant would have a detrimental impact on the profit in Phase 1 with a potential loss of £0.405m (based on an average 56% sales price) - This could reduce the profit in this phase from £1.350m to £0.945m a figure closer to the overall profit reported in September 2020.

In order to address this issue and potentially mitigate any adverse impact on the business plan the following actions are being undertaken:-

1. Dialogue will continue with Homes England to establish how other council owned company's across the county have accessed this grant funding and how this relates to the required planning conditions of the local authority in order to inform this Phase and subsequent phases;
2. The Company will engage the Combined Authority in order to establish if funding can be obtained from its 'Brownfield Land Fund' , in order that the known viability issues associated with these Phase 1 sites would be met from external funding- in the event that Homes England Funding isn't received; and
3. A review of the viability gap to establish if other funding opportunities for the provision of affordable housing could be undertaken.

Each of the above items have been identified as risk mitigation measures and are progressing. When these items have been concluded, in conjunction with CA approval for Buckley Hill Lane, and receipt of an updated exit strategy, a further report will be presented to cabinet for consideration.

- **Expenditure (Construction and Fees)** The positive variance on construction and fees relates to the reduced price for Buckley Hill Lane, which is currently being negotiated in light of the intended plot substitutions of some of the terraced blocks with detached homes. (This will improve the saleability of the scheme overall whilst reducing the number of units on the site from 70 to 63) .

  However, a further adverse variance relates to an 8-week delay which the Company incurred due to a dispute in relation to site access in Crossens. This extension of time had to be absorbed by the Company. Whilst there is a fixed price contract in place for each site with the main contractor, Barnfield Construction, contingency for any adverse impact was not included in the original plan.

  Due to the issues with timber frame manufacturing and supply chain (as outlined previously in the report), construction programmes have been impacted upon, meaning that the original staggered completions are now more 'back-ended' which elongates the sales periods hence impacting upon peak debt.

- **Expenditure (Company Overheads and Business Plan contingency)** The September 2020 Business Plan assumed that all staff and business operations would cease in 2023 and that there would be no Phase 2 Programme with approval from Cabinet focussing solely on Phase 1.

3.12 The revised Business Plan presented to the Council reflects that Phase 1 will not be complete (last sale) until March 2025, hence staffing costs for the Business Plan period will increase.

3.13 There is also an element of contingency that the company has also now applied to the plan in order to mitigate any adverse impact on construction and sales income. The original plan did not include this, and whilst marketing fees for Abode Estate Agents were included, specifics relating to the potential need to incentivise homes for sale (including carpets and blinds / legal fees paid for example) were not included. This is intended to act as a risk mitigation, and any contingency outstanding will be added to the overall profit of £1.350m

3.14 As previously reported the revised profit/ dividend of £1.350m is in addition to the capital receipt of £2.2m that would be payable to the Council if this plan is approved and subsequently delivered.

<u>Timing of Dividend</u>

3.15 The Council were previously advised that it would be in receipt of this dividend and capital receipt in financial year 2022/23. Due to the issues discussed earlier in this report , without any changes to the approach to construction this would be delayed until March 2025 with the capital receipt being received in March 2024.

<u>Level of Peak Debt and Duration</u>

3.16 As a result of the movements within the delivery of Phase 1, if these changes are approved by Members there would be an impact on the level of peak debt required by the company (an increase from £5.1m) and the duration for which this would be required.

3.17 Based on financial information provided to the Council by the Company , to support the revised programme, a level of peak debt of £8.3m would be required with this peak being reached in March 2022 as opposed to December 2021. The debt would be fully repaid by March 2024 instead of during the financial year 2022/23.

3.18 The reasons for this significant increase are:-

- Company set up / overheads and construction payments to 31 August 2021 are £3.9m and the remaining headroom of £1.2m is insufficient to process payments for contractual construction works before sales income will be received;
- A longer programme of activity means that business overheads and support costs will be required for a longer period; and
- Due to the issues with regard to timber which will impact on the construction completion of housing units there will be a longer period between expenditure being incurred and sales income being received.

<u>Risk Exposure for the Council</u>

3.19 Within the previous cabinet reports approved by Members there has been a strong focus on the understanding and management of financial risk that the company and council would be exposed to and the measures that are in place to manage this risk.

3.20 From this updated analysis, the overall profit/ dividend payable to the Council remains favourable, pending the outcome of discussions in respect of the Affordable Housing, and indeed the value of homes to be sold has increased. This position however is offset by the duration of Phase 1 and the level of peak debt, that without any changes, would be required by the Company.

3.21 From its review, the company remains confident that its sales values can be delivered and the dividend due will be generated and it could be considered that the peak debt being reached only 4 months later than previously forecast also provides assurance however a debt exposure of £8.3m as opposed to £5.1m represents a material change and it is important that Members recognise the risk presented and how this would be mitigated.

3.22 From inception the company has maintained that it has an agreed exit strategy that could be executed should it fail to operate as a going concern or the council reached a point where it no longer wished it to operate- this strategy would include the sale of completed housing units to a Registered Provider. In addition , the construction programme would ensure that stock was not accrued without clear evidence of sales contract exchanges being in place for stock held.

3.23 In reviewing this increase in peak debt, the council has sought assurance that a revised exit strategy is in place and that there is sufficient detail and analysis to reflect what these sales would generate at the time of a revised peak debt level of £8.3m being reached. The company have advised that such an exit strategy is in the process of being revised. Members are asked to note that in such a scenario it is unlikely, as would be expected, that should the peak debt level be reached, that these sales would fully meet that value, however this figure will be provided when the strategy has been reviewed and discussions with the registered provider have been concluded.

3.24 This is a critical element in any revision to the Business Plan and it is recommended that all decisions are subject to the satisfactory production of such a strategy that mitigates the increased risk presented by the change in peak debt and extension of the programme.

3.25 In addition to the this exit strategy, the company has advised the council that it also has a comprehensive risk management system in place to ensure that risks are identified, managed and contained. This includes gaining appropriate assurance that these risks are being controlled, informed by stress testing and identifying any risks which would impact more significantly on business plan viability.

The delivery of the Phase 1 Business Plan incorporates financial, operational and delivery risks, which are the responsibility of the Managing Director, Board and Management Team to monitor. The specific areas and further outlined below:

Financial

- A monthly management update meeting (MMU) and quarterly Board meeting is held by the Company, which reports on any in period changes, including handovers, sales, and impact of headroom, risk and cash flow /financial performance on the overall Phase 1 Business Plan. This is shared with the Shareholder on a monthly basis with an agreed escalation process to Cabinet for any material variations being in place;

- Sales dashboards are provided for each MMU / Board Meeting, along with a detailed marketing report examining regional sales performance. RICS accredited valuations are sought within 3 months of properties being marketed for sale to ensure that house prices are reflective of current market conditions;

- The revised Sandway Phase 1 Business Plan contains stress testing around sales income and construction contingency. A contingency has been applied to the plan so as to provide a 'buffer' for any future risk caused by a dip in the sales market and any un-foreseen construction variations which emerge once a scheme has gone on site;

- The Company will also consider potential exit strategies for any homes which remain un-sold 6 months post completion, through collaboration with Local Registered Providers and Developers;

Operational

- A comprehensive risk register for each Phase 1 site is reviewed by the Company's Board at each meeting. If risks meet an agreed threshold they are escalated to the Shareholder representative and the Council for consideration. These may then be included on the Council's Corporate Risk register if they fit within the escalation framework that has been agreed by Audit and Governance Committee;

- A detailed update report is produced by the Company's Managing Director in addition to a full progress report for each MMU / Board Meeting. This provides full visibility of all aspects of the company's business operations and financial performance. These reports are shared with both the Shareholder representative and the Council in advance of each Board meeting in order that full visibility of all aspects of the business is obtained;

- The Company has appointed the Council's Internal Audit team to provide Internal Audit services. A comprehensive annual internal audit plan is currently being developed with the first audit scheduled for Q4 2021-22. This will provide assurance as to management, governance and processes within the company and financial performance;

- The Company now employs a full time Managing Director, Head of Business Operations and Graduate Trainee. They are also in the process of recruiting a Finance Manager and additional sales support. This places less reliance on external consultancy support and further assurances / accountability to the Shareholder;

Scheme Delivery

- A 'guaranteed maximum price (GMP) fixed price construction contract for each site is in place, which is aimed at transferring any cost increases to the Contractor, limiting the potential losses that could be incurred by the Company / Shareholder;

- For the remainder of Phase 1, and any future Programme, Sandway will continue to reduce their expenditure on consultancy fees by developing in-house skills through targeted recruitment;

- The Company will aim to standardise its house-types and promote greater supply chain efficiencies through using a tried and tested design. This will build the brand reputation for Sandway and marketability of its homes, which should positively impact on future sales risks;

Potential Mitigations

3.26 The information provided to the Council and the revised timings and financial performance assumes that the approach to Phase 1 is as originally set out ie all 3 sites are built out at a similar time. In understanding these potential changes, the company have been asked for what options would exist to mitigate the impact of an increase in peak debt and thereby reduce the councils risk exposure. These options together with the evaluation are detailed below

3.27 **Terminate contracts at Barton Close / Meadow Lane- option not favoured:**
Issues presented by this option would include:

- Reputational damage of terminating half-finished sites across the Borough;
- Reservations for homes to date lost or delayed due to delay in build completion and technical sign off; and
- Profit would not be realised as sites would be valued based on works to date, with no profit realised on sale if they were sold on to a third party;

3.28 **Further reduce on-costs by removal of staff / board-option not favoured:**
On-costs have been reduced to a minimum- small staff contingent. Removal of staff / Board would mean that SMBC would have to take delivery in-house and possibly recruit new staff to deliver the programme where the expertise or capacity does not exist

3.29 **Do not proceed with the Buckley Hill Lane site- option not favoured:**
The Company would then carry all overheads / and professional fees for just two sites and there would be an overall loss of £2,500,000 in profit due to the high levels of potential abortive fees and loss of grant from the Combined Authority;

3.30 **Sefton MBC sell Buckley Hill Lane site on open market-option not favoured:**
This could result in the potential loss of Combined Authority grant funding and profit on sale. The Council would only realise the small planning gain, as a new Developer would take a view on abnormals and seek an appropriate discount.

4.0 Sefton MBC

4.1 Within the previous Cabinet report, it was agreed that the Council would acquire from the Company, 9 apartments within the Buckley Hill site to support its approach to social housing. This commitment remains and it is estimated that these will be available for purchase in October 2022. it is estimated that the cost of this acquisition will be £0.900m and will be funded from right to buy receipts received from One Vision Housing in respect of the previous stock transfer which need to be used to support such housing activity. A formal decision, due to the value of the transaction will be presented to Members in accordance with Financial Procedure Rules in due course.

5.0 Phase 2

5.1 At its meeting in June 2021, Cabinet agreed that the Company should be advised that the Council would be prepared to make available to it a further 3 sites for development of circa 350 additional homes, subject to a Business Case being

developed and approved by the Council. This work remains ongoing however due to the material changes in Phase 1, it is proposed that consideration of this be delayed until further assurance around the delivery of the housing units and financial performance of Phase 1 is available to the Council.
Members are asked to note that as previously reported to Cabinet, £0.200m has been incurred by the company to date on this work, which has informed feasibility assessments and subsequent bids to the Combined Authority for pre-development funding. This is included within the revised peak debt figure within this report and the cost would be reflected in the business case that eventually comes forward for Phase 2. Discussions are ongoing with the Combined Authority with a view to funding this work including expenditure incurred to date. In the event that the council chose to not proceed with Phase 2 and Combined Authority funding wasn't received this sum would have to be met from council resources.

6.0 Conclusion

6.1 The revised and updated Business Plan that has been presented to the Council contains a number of variations to each aspect of the business case, namely the number of units, timing of construction and completion, income, expenditure, profit and peak debt. As such each of these needs careful consideration and evaluation by Members in order to inform decision making.

6.2 Following the pandemic it would be expected that the previous estimates of construction timelines would be impacted and the company advise that this has been compounded by issues around Timber supply which is not only an issue to the company but a national issue.

6.3 The review of the Business Plan has also resulted in changes to forecast income and expenditure levels as set out, with an estimated profit to the company and dividend to the council of around £1.350m forecast to be generated in addition to the capital receipts of £2.2m. The Company remains confident that the pricing of its housing units is now reflective of the local and national market and that these will be sold, with the sales rate included in this revised business plan now being more reflective of what can reasonably be expected and the capacity in the company to process them.

6.4 It should be noted however that discussions continue with both the Combined Authority and Homes England in respect of grant funding to this phase the financial implications of which are contained in this report. The greater risk at present is in respect of the Homes England Grant and if this isn't received or a mitigation identified then this would have a detrimental impact on the revised forecast of up to £0.405m. This would reduce the profit to £0.945m based on the information provided which is closer to the previously approved profit figure reported in September 2020.

6.5 This outlook and review of the Business Plan could offer the Council some assurance that the financial objectives of the first phase will be delivered and that the risk of non delivery has not changed , however the largest risks presented by this revision relates to the length of time that the council will be providing the debt facility to the company for during this phase and the increased value of that debt at a point in time which if agreed would increase from £5.1m to £8.3m.

6.5 This debt exposure has always been reported to Members as the most significant risk faced by the council and this risk will increase should this revised Business Plan be approved despite the peak debt level being reached only 4 months later than previously estimated. As a result of this it is critical that the exit strategy be updated by the Company and be provided to the Council that details how much of this debt would be met from sales to the registered provider of completed housing units and what the residual sum remaining would be.