

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	1 December 2022
<b>Subject:</b>	Phase 1 Business Plan for Sandway Homes Limited		
<b>Report of:</b>	Chief Executive and Executive Director Corporate Resources and Customer Services	<b>Wards Affected:</b>	All
<b>Cabinet Portfolio:</b>	<b>Cabinet Member - Communities and Housing</b>		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### 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 current progress in respect of Phase 2 Business Planning.

### Recommendation(s):

Cabinet are requested to:-

1. Approve the revisions to the Phase 1 Business Plan as provided by the Company to the Council as at November 2022, including changes to the financial forecast, duration of the programme and timing of the dividend, capital receipt and repayment of debt;
2. Note the range of external economic factors that have materialised over the last 6 months that could impact financial performance;
3. Note the options currently identified from the updated exit strategy that would be available to the council should the company fail to continue to operate;
4. Approve that any further material variations to this revised financial forecast in respect of the Phase 1 Business Case (the base case) that arise be presented back to cabinet for further decision at the earliest opportunity; and
5. Note the progress being made in respect of potential business cases for 2 sites that would be included in a Phase 2 Business Plan and that subject to progress these will be reported to cabinet during the second half of 2023. This timeline will be driven by the Council having 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:**

<b>Resource Implications (Financial, IT, Staffing and Assets):</b>	
All resource implications are contained within the report	
<b>Legal Implications:</b>	
<b>Equality Implications:</b>	
There are no equality implications	
<b>Climate Emergency Implications:</b>	
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 compliant 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.7014/22) and the Chief Legal and Democratic Officer (LD.5214/22) have been consulted and any comments have been incorporated into the report.

**(B) External Consultations**

There have been no external consultations.

<b>Contact Officer:</b>	<b>Stephan Van Arendsen</b>
Telephone Number:	<b>0151 934 4081</b>

Email Address:	<b>Stephan.vanarendsen@sefton.gov.uk</b>
----------------	--

**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 detailed updates being provided at the meetings in September 2020 and October 2021. 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
<b>Total</b>	<b>148</b>		

**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)
<b>Earnings Before Tax</b>	<b>1,298,054</b>
Corporation Tax	(246,630)
<b>EARNINGS AFTER TAX (Dividend)</b>	<b>1,051,424</b>

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 November 2022

- 3.1 At the meeting of Cabinet in October 2021, the outcome of the comprehensive review of Business Plan undertaken by the company was reported and approved by members. This review took account of a number of changes within the company and the full impact of the COVID 19 pandemic on the housing sector, wider economy and the ability of the company to progress with the Phase 1 Business Plan and reflected the positive outlook for the company including the delivery of financial objectives, the contribution to Housing supply within the Borough and the social value contribution. In preparing this latest update for cabinet, the well-publicised external economic factors that are having an impact throughout the UK and which will have an impact on the delivery of the Phase 1 business plan are detailed in this report. In considering the impact it is important to focus on both the revisions to the financial forecasts but also the risk that exists at the current time that could impact this performance
- 3.2 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

- 3.3 As reported earlier in this report, Phase 1 is focussed on 3 sites with a previously approved completion date of March 2025. Following the review of the Phase 1 Business Plan the following changes are proposed to the programme compared to that previously approved in October 2021.

**Table 3 : Revised Programme timeline**

Site	As per approved Business Plan			Estimated following Business Plan review		
	Units to be built	Start date (construction)	End date (Sales completion)	Units to be built	Start date (construction)	End date (Last sale post construction)
Meadow Lane, Ainsdale	48	December 2020	March 2023	48	December 2020	July 2023
Barton Close, Crossens	30	February 2021	November 2022	30	February 2021	May 2023
Buckley Hill Lane, Netherton	63	March 2022	March 2025	63	April 2023	July 2025
<b>Total</b>	<b>141</b>			<b>141</b>		

- 3.4 From this table it can be seen that in respect of the 2 sites for which construction has commenced, namely Meadow Lane and Barton's Close, the end date for sales completion will move out from the previously reported dates by 4 months and 7 months respectively to July 2023 and May 2023.

In respect of Meadow Lane it is expected that by Christmas 2022, 18 properties will have been completed and handed over with the remaining 30 to be completed

by May 2023. The 4 month delay has been caused by supply chain issues and the availability of bricklayers and finishing trades.

At Barton's Close, 10 properties are sale complete, with a further 9 due to be build complete by Christmas 2022 with the remaining 11 being complete by the end of January 2023. Again, this delay has been driven by supply chain issues and the availability of certain trades.

The 25 affordable housing plots across both sites are in contract with Together Housing and handovers have commenced on shared ownership units at Meadow Lane

In considering the progress at both of these sites, it is also important to report that prior to recent economic changes, as these schemes moved into the sales phase, plot reservations were extremely positive, with all homes released for sale having been reserved off plan. The Company continues to work with its agents to support homeowners moving into their properties and feedback received to date has been positive.

- 3.5 At Buckley Hill Lane, the exceptionally long lead in period for service diversions has continued to have an impact on the main contractor being able to secure sub-contractor package prices for the key components such as timber frames / roof trusses and drainage which has resulted in a further period of un-certainty for Sandway Homes regarding price. It is now forecast that all services work will be complete by April 2023, with the main construction contract commencing thereafter, thus resulting in a 12 month delay for construction works

The reasons for the delay in the Buckley Hill pre-construction works are as follows:

- Planning for a revised layout of 63 homes was secured on 21st November 2021 by way of a re-design so as to maximise saleability and values on the site, this was an initial 3-month delay;
- Following this a re-negotiation process with the Combined Authority (CA) commenced on the grant funding for the site as fewer units were to be delivered. This was completed on 12th April 2022.
- Stage 4 design period post planning commenced in December 2021 and continued through to approval of the CA allocation in April 2022.
- The Contract with the main contractor for service diversion works was subsequently agreed in May 2022, and quotes to statutory providers re-submitted. Following that period there have been the delays in those services being delivered by the statutory service providers.

- 3.6 As a result of these issues, a full review of all income and expenditure assumptions has been undertaken, with the aim of understanding the impact on the following:-

- Overall dividend due to the council in respect of Phase 1;
- Timing of the final dividend back to the Council from the Company;
- Duration of debt facility being required;
- Timing of the capital receipt due to the council in respect of Phase 1;
- Overall risk exposure for the council;
- Timing of consideration of Phase 2 activities

3.7 Each of these issues is considered in the following sections of the report. In order to inform this work, the company has undertaken a range of modelling exercises on a variety of scenarios, to identify a central or base case that can be provided to the council and the company can work towards.

#### The external economic environment

3.8 This extensive scenario planning and modelling work by the company has been and will continue to be significantly impacted by the current economic conditions and volatility that exists within the UK- the issues and scale of these has increased substantially since September 2022 following the national government budget statement.

The country is now operating in a fundamentally different economic environment with rising interest rates, inflation due to be over 10% for the duration of 2023, a cost of living crisis and the prospect of a lengthy recession as predicted by many economic commentators. This dislocation in economic activity is effecting each area of society but the impact on the housing sector is one of the most significant and will inevitably impact the delivery of the Phase 1 Business Plan over the next 12-18 months despite the excellent start at the first 2 sites. Each of these aspects will have a substantial impact on the company due to:

- Mortgage rates increasing , therefore previous mortgage deals will have either been removed from the market or increased substantially in cost, thereby making potential buyers revisit their plans;
- Potential buyers having less financial resources to purchase a home;
- Both of these issues will result in a lower number of housing sales being undertaken compared to previously forecasts;
- Supply chain issues leading to works delays; and
- Inflation pushing up prices for construction works.

The severity of this economic situation and the potential impact on the company's operations and planning cannot be under-estimated, with the impact already being felt with a slowdown in reservations taking place. This accords with larger and more established Housebuilders who are operating across the Borough. As a result, the company has provided an updated base case forecast and 'worse' case forecast to the council for Phase 1.

#### Financial Performance and Risk- Update November 2022

3.9 As reported earlier in this report, it was originally anticipated in 2019, that Phase 1 would deliver a profit / dividend to the council upon completion of £1.051m, which was subsequently increased to £1.350m in the last report received by members. This is in addition to the capital receipt 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 November 2022**

	Business Plan Forecast September 2021  £	Business Plan Forecast November 2022  £
Income (House Sale and Grant)	30,269,816	32,788,683
Expenditure (Construction and Fees)	-23,182,761	-25,328,134
Expenditure (Company Overheads)	-2,758,776	-3,381,785
Expenditure (Land Acquisition)	-2,232,000	-2,232,000
Interest	-428,740	-549,881
<b>Earnings Before Tax</b>	<b>1,667,539</b>	<b>1,296,883</b>
Corporation Tax	-316,832	-246,408
<b>EARNINGS AFTER TAX (Dividend)</b>	<b>1,350,707</b>	<b>1,050,475</b>

3.10 From this review it can be seen that:-

- The forecast base case dividend from Phase 1 is £1.050m- this is in line with that estimated in the original business plan in 2019 but lower than that forecast in last years report;
- Following a review of all current and potential sales prices for homes, the income due from phase 1 is now expected to be £32.8m. This reflects updated valuations for properties which are sale complete, which have continued to rise throughout the delivery of the business plan. The Company also continues to track comparable sales performance on similar developments in the Borough. The sales contingency contained within the plan, provides headroom for fluctuations in values, and also accommodates sales incentives on future plots as the market continues to slow. This is obviously a volatile area of the market at present and will need to be the subject of continual review and monitoring over the coming months and risk is attached to this estimate;
- Similarly , construction costs and contingencies have increased during the last 12 months that take account of inflation and supply chain issues- again with rising inflation forecast to be in excess of 10% during 2023 this will be a key area of focus. The key risk in this area relates to the construction cost of Buckley Hill Lane with this yet to be agreed with the main contractor- a robust forecast estimate that the company believes is accurate is included within this plan however until negotiations are completed there is an element of risk to this estimate; and,
- A key issue in this forecast is that with Phase 1 taking longer than previously anticipated, the company will be carrying overhead costs for a longer period that will impact upon the dividend- as has been reported most of these delays have been driven by external economic factors as well as through the redesign of Buckley Hill Lane, but the cost of the overhead has now increased to an estimated £3.4m. In the event that a Phase 2 programme is approved and commences

before the end of Phase 1 , a proportion of these overhead costs will be charged against Phase 2 but at present these are shown in this analysis.

- 3.11 As previously reported, the revised profit/ dividend of £1.050m 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. This capital receipt was agreed previously via independent valuations of the 3 sites to ensure that the council achieves best consideration, and this complies with its statutory obligations.

#### Timing of Dividend

- 3.12 The Council were previously advised that it would be in receipt of this dividend and capital receipt in financial year 2024/25. Due to the issues discussed earlier in this report , without any changes to the approach to construction the dividend would be delayed until June 2025, debt would be repayed in March 2025 with the capital receipt also being received in March 2025.

#### Risk Exposure for the Council

- 3.13 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.
- 3.14 From this updated analysis, the overall profit/ dividend payable to the Council under the base case remains in line with that of the original approved business case of 2019 (but is less than that reported last year), however due to the economic environment that the company is working in and with the sector being impacted to a greater extent than others because of this, the risk that is inherent within the current forecast has increased substantially.

At this point, and as stated earlier in the report the company has scenario planned and modelled this base case for consideration and approval but has also provided a 'worse' case position that needs to be considered.

This alternative position takes into account:

- Potential changes in the levels of income assumed, due to lower sales values should there be a prolonged recession with house prices falling;
- Increases in the final construction cost for Buckley Hill Lane;
- Longer sales periods due to fewer buyers in the market;
- Changes in level of interest and corporation tax payable;
- Programme extensions due to the delays on site with materials; and
- Sales completion rates reducing as mortgage availability becomes less accessible for some customers

From this work that has been undertaken and the interdependencies between these factors a 'worse' case scenario of an overall dividend of £0.4m could materialise. As a result, it will be important that the engagement between the council and the company is robust and regular during this volatile and uncertain period and the company's board receive comprehensive risk assessed reports that allow them to make informed decisions and provide advice to the council for it

to then in turn make informed decisions also. Upon receipt of such information, cabinet will be informed of any issues at the earliest opportunity.

The Council will also need to be cognisant of the following areas during this period:

- A longer programme duration and a slowdown in sales will impact upon the cashflow of the company- the current plan will need continually updating to reflect actual sales income vs budget, which in turn is reflected in how the company manages its cashflow-Critically, the sales of homes on the first 2 sites, provides the cashflow to support the substantial build and contract value on the 3<sup>rd</sup> site at Buckley Hill Lane so any material variation will have an impact on this.
- There maybe the requirement to increase the peak debt from the currently approved level of £8.3m. The level and risk associated with the peak debt approved for the company and the impact that this has on the council has been acknowledged since the original business case was approved and was also the subject of much review in October 2021. As a result of the current issues in terms of value of Buckley Hill Lane construction contract, a longer build programme and potential delay in sales from external economic circumstances, this risk is increasing and will require careful monitoring and review. It is recommended that this significant risk be noted by the council and that an update be provided in 2023 as greater clarity is obtained and the full impact of the current economic conditions on the sales of the remaining homes at the first 2 sites is understood, with any request for an increase in the level of peak debt needing to be considered alongside the risks set out in this report;
- Similarly, with the company entering into a large construction contract for the site at Buckley Hill Lane and the work being undertaken over a prolonged period as set out earlier in this report, due to the current economic circumstances the contractor may require a parent guarantee from the council. The council would need to consider the terms and risk of such a guarantee should it be required.

3.15 It can therefore be seen that although a base case has been provided to the council , the external economic circumstances that are in existence at the present time will mean that this cannot be guaranteed by the company. It is however this base case that is being presented for approval at this meeting with any material variations following that being reported back to cabinet for decision.

3.16 As stated earlier within the report, it is worth identifying at this point in time that the company has progressed to date in accordance with the direction provided by members. These include strong planning permissions, full policy compliance, the delivery of a quality product that can inform and influence other housebuilders within Sefton, full delivery of policy requirements in respect of affordable housing and a range of social value contributions . It is the change in the national economic conditions that is driving the current risk and uncertainty. This is reflected in the rephrasing of forecast sales income from Q2 of this financial year to later in the programme.

## Exit Strategy

- 3.17 At the cabinet meeting of December 2021, cabinet approved the exit strategy that had been developed by the company and which was presented to the council, in order to support the revised business plan. The detail within the exit strategy is updated on a regular basis by the company and the latest document has been received by the council. Having a clear exit strategy is a necessary requirement in order that the council has a risk mitigation plan should any of the inherent delivery risks associated crystallise. The key imperative being for the Council as Shareholder to recover the maximum level of investment at a given point in time, so as to limit further financial exposure / delivery risk.
- 3.18 The most appropriate form of any 'exit' will be dependent upon a number of factors including the stage of the development project, the overall programme projections (particularly in relation to sales periods and the rate of return on investment) as well as the Council's appetite to retain stock over a longer-term financial plan.

## **Options Available**

- 3.19 There are three proposed exit routes which would allow the Council to intervene if either the peak debt level was realised or the Company failed to operate. However, it is important to note that before that stage, there are further mitigating factors that the Company / Council could deploy to improve the overall position and mitigate risk. A summary of these exit strategy routes is as follows:

### Un-sold stock

- 3.20 The revised business plan as presented to Cabinet in October 2021, contained sales contingency provision. This relates to an element of financial headroom (cash assumption) in the plan to allow the Company to incentivise sales. With the economic downturn this is more likely to be required than it was 12 months ago and this would be the first risk mitigation measure to be considered.

### Un-sold stock: individual plot sales to RP or Investor

- 3.21 If there are properties that remain un-sold for a period of beyond 6 months, the council could seek a disposal strategy from the company, involving the sale of stock to either a Registered Provider or an Investor. There are circa 15 Registered Providers actively operating and developing homes in Sefton who could be approached to acquire stock for affordable housing purposes. Alternatively, the company could also register as an RP entity and retain properties for shared ownership / rent to buy however that would require a re-negotiation of current loan terms and a likely extension for 5-10 years to cover the initial first tranche sales period.
- 3.22 There are equally larger Build to Rent investors and pension funds seeking to acquire residential stock. Development assumptions will differ between an RP investor / private investor, and it may be that in such a scenario the council may lose a percentage of its overall income by disposing of properties in this manner, however, this does provide an alternative exit route.

For illustration, with grant funding, Registered Providers will seek to acquire at sub market value, reflecting a deduction to cover long term finance and management costs. Comparably, a private investor may seek a discount for acquiring what they perceive to be 'distressed' stock- however this would be subject to a revised valuation process when negotiating the disposal.

Clearly in such a scenario, the Council's strategic housing objectives would need to be factored into the eventual disposal route, which would be based on housing need in the area, and demand for affordable housing compared to private rented accommodation. This would be considered against the financial implications of different disposal routes with appropriate recommendations being made to Cabinet on that basis.

#### SMBC retention of stock for market rent / affordable housing purposes

- 3.23 The council may equally opt to re-finance and retain any un-sold Sandway stock for use as affordable or market rented housing. The Council is currently considering its options around the provision and delivery of council housing and an assessment of acquiring completed stock from Sandway could be established as part of that process.

Retaining a rented portfolio would require the Council to extend a proportion of the total loan, to cover the full development costs of the remaining stock, due to the properties becoming rented units, as opposed to open market. Typically for a market rented portfolio, this would be over 15 years, with an expected return on investment (yield) of between 5%-8% per annum.

Given the higher management and long-term maintenance costs associated with retaining the stock for affordable housing purposes, combined with the lower rental income, this would require a 30–35-year loan. This would provide the Council with an appreciating asset, which could be used as security for further borrowing in the future.

#### Considering the options

- 3.24 As stated, throughout the Business Plan period, the appropriate exit strategy will depend upon the stage of construction, and if for example the Contractor was to go into liquidation- the value of the works left to complete on site at that moment time. It will also depend on the number of un-sold homes, and how long they have been un-sold compared to the phasing assumed within the Business Plan. As of September 2022, the financial position for the Company is summarised as follows:

- The Company set up costs, fees associated with Phase 1 planning applications, day to day business operations, and contractually committed 'work in progress' construction payments, stands at £12.63m;
- Construction payments to date of £9.4m have been incurred within the 'WIP' costs as above, which means that there is £3.23m of contractual payments outstanding for committed schemes;
- The contractually committed programme is scheduled to include Buckley Hill Lane from Q1 2023-24. Once Buckley Hill Lane becomes 'contractual' the

value of committed construction schemes will rise by the associated contract amount;

- The Gross Development Value (GDV) of the Phase 1 Business Plan is £32.4m and sales income assumptions have been set at an average of 2 per month post completion, which is aligned with typical Housebuilder projections. This will be reviewed regularly by conducting competitor analysis to ascertain whether this assumption could be updated based on market conditions.

#### Plots 'in contract' as a proportion of income

- 3.25 As of November 2022, there are 53 contractually committed open market sale homes, and 18 which are build complete which includes the 4 showhomes across both schemes. Showhomes will be retained until the majority of homes are sold, hence are cashflowed for sale in the latter part of the business plan for each scheme.

In addition, 25 affordable housing plots at Meadow and Barton are in contract with Together Housing and are 68% build complete (and payment drawn down), with handovers having commenced in October 2022. Negotiations are on-going between the council and the company regarding the acquisition of affordable housing plots at Buckley Hill Lane, and subject to future Cabinet approval there will be a similar % of 'in contract' affordable homes at that scheme, hence reducing the overall income risk.

- 3.26 It is important with the councils company that an exit strategy is maintained and continually updated on a regular basis and as material variations take place eg through economic conditions and progress on delivery of the business plan takes place. It is also important that cabinet as shareholder have full visibility and understanding of the current status of financial commitments, obligations and risk that would inform the decision around which option would be the best for the council to maximise the opportunity and minimise any financial loss should this exit strategy be required. The detail in this report provides an assessment of the current options and current financial exposure and this will be continually reviewed as recommended- in the event of the exit strategy being considered the council would procure specialist advice and support in order to inform decision making.

#### 4.0 Governance arrangements

- 4.1 At a Cabinet meeting earlier this year, members approved a range of recommendations to improve the governance arrangements both of the company and between the company and the council. As a result there are no further areas for consideration at this stage. Members are asked to note however that the council's monitoring officer is currently conducting a review of the governance arrangements for each of the councils wholly owned companies against the Local Partnerships 'Local Authority Company Guidance Document'. The outcome of this review and any resulting recommendations will be presented to cabinet for decision.

#### 5.0 Phase 2

5.1 At the Cabinet meeting of 3 September 2020, members approved that Sandway Homes Limited be granted approval to develop a phase 2 business case in respect of three sites. To support this work a grant application for £1.033m was made to the Combined Authority to support development work up to the pre-planning stage in respect of the following two sites:-

- Former Bootle High School site, Browns Lane, Bootle; and
- Land to the rear of Bentham Drive, Southport

5.2 This bid was approved by the Combined Authority and following decision was approved by Full Council in July 2022 in accordance with Financial Procedure Rules. This funding will come to the council in the first instance before a back to back legal agreement with the company is agreed. It is anticipated that work on these business cases will be complete during 2023 and this will then be presented to cabinet for decision with the company having commenced recruitment of professional development teams to progress planning on both sites early that would minimise the risk to the council and the company and build on learning from Phase 1. This grant award from the Combined Authority is unique and reflected the confidence in the company's plans.

## 6.0 Conclusion

6.1 Progress in delivering the Phase 1 Business case for the company was going according to the plan approved by members in October 2021 at the first 2 sites. However, the current economic conditions with the UK, especially since September 2022 and the delays in progressing the Buckley Hill Lane site have meant that a full review of the business case has been required

6.2 Whilst this work is to be expected due to the significant change in the financial environment within which the company operates, both from a housing sector point of view and the ability of the population obtain mortgages at an affordable rate (or a rate previously planned for), the resulting financial risks that have been identified are substantial both for the company and the council.

6.3 Most of these factors are outside of the control of the company and the council but it is critical that they are understood and their impact evaluated in order that informed decisions can be made by both parties. As stated progress was in line with business plan, but housing sales have slowed in recent months across the country and this is also the case for the company on the initial 2 sites.

6.4 The Phase 1 business case has inevitably been affected both in terms of the value of the dividend that will be received by the council due to a longer programme, and the timing of its financial receipts and within this report both a base case and 'worst' case position are presented and neither can be guaranteed. Due to the uncertainty in the sector and the economy which will inform liquidity, availability of affordable mortgages, the availability of a robust supply chain and level of sales, there are a range of scenario's that will be presented to the company on the forthcoming months that will need to be managed. This will include sales prices on the first 2 sites and the timing of works on the 3<sup>rd</sup> site and how these are funded

- 6.5 The company has presented an updated exit strategy to the council and the detail and options in this reflect the current position, however as stated previously this will inevitably change over the coming months. As a result any material changes in this revised base case should be communicated to the council as soon as possible and these will in turn be reported to cabinet.