

Report to:	Overview and Scrutiny Committee- Regeneration and Skills	Date of Meeting:	17 January 2023
Subject:	Sandway Homes Limited - 2021/22 Outturn Review of Council Wholly Owned Companies		
Report of:	Executive Director Corporate Resources and Customer Services	Wards Affected:	All A ward
Cabinet Portfolio:	Communities and Housing		
Is this a Key Decision:	No	Included in Forward Plan:	N/A
Exempt / Confidential Report:	No		

Summary:

The aim of this report is to allow members to carry out effective scrutiny of council companies which gives a level of assurance that both the Council's interests and the services or products provided by companies to our residents, are safe and well managed and offer good value for money.

Recommendation(s):

That Members of Overview and Scrutiny Committee:

- (1) consider the content of the report in respect of Sandway Homes Limited;
- (2) provide feedback on key issues arising and advise on further information that would support the scrutiny review in future years;
- (3) provide feedback on current performance (operational and financial) and how this supports the council's strategic aims and ambitions and aligns with the objectives and reasons for setting up the companies; and
- (4) seek clarification or additional information from officers as appropriate within the meeting in order to carry out the scrutiny function

Reasons for the Recommendation(s):

The recommendations will support the effective and transparent governance of the councils 3 wholly owned council companies and best practice.

Alternative Options Considered and Rejected: (including any Risk Implications)

No alternative options have been considered

What will it cost and how will it be financed?

(A) Revenue Costs

Key financial issues and implications are included within the body of the report

(B) Capital Costs

Key financial issues and implications are included within the body of the report

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):	
Any resource implications arising are included in the body of the report	
Legal Implications:	
There are no legal implications arising	
Equality Implications:	
There are no equality implications	
Climate Emergency Implications:	
The recommendations within this report will	
Have a positive impact	Y
Have a neutral impact	N
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

Contribution to the Council's Core Purpose:

The council's 3 wholly owned companies were set up with specific objectives that would support the delivery of the council's core purpose. These objectives are set out in the body of the report and between the 3 companies contribute to the delivery of each element of the council's core purpose

Protect the most vulnerable:
Facilitate confident and resilient communities:
Commission, broker and provide core services:
Place – leadership and influencer:
Drivers of change and reform:

Facilitate sustainable economic prosperity:
Greater income for social investment:
Cleaner Greener

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD.6993/22) and the Chief Legal and Democratic Officer (LD.5193/22.) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Engagement and information provision was sought from each of the 3 companies in the production of this report

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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 The council aims to ensure that the governance of its wholly owned companies meets best practice within the sector. As information and guidance becomes available then the council's approach will similarly evolve.
- 1.2. The next step in the governance cycle is to provide members with a review of performance for the previous financial year. As such this report provides that for Sandway Homes Limited.
- 1.3. Members should be aware that as part of the continual drive to ensure that best practice is followed a self assessment for each of the council's company's is currently being undertaken against the Local Partnerships document 'Local Authority Company Guidance Document'- this review will be led by the council's Monitoring Officer. This document has helped inform the areas to be reported within this report.

2. Aims of the Annual Report

- 2.1. The aim of this report is to allow members to carry out effective scrutiny of council companies which gives a level of assurance that both the Council's interests and the services or products provided by companies to our residents, are safe and well managed and offer good value for money by;
- a. Challenging the suitability of their business plans and objectives in meeting the needs of the council, service users and residents
 - b. Testing the financial benefits to the council and economic benefits to the community
 - c. Reviewing the outcomes and achievements of commercial operations against their original plans
 - d. Testing whether the value of the Council's investment into these vehicles is being protected and public funds are not exposed to excessive risk ; and
 - e. Checking that responsible business standards are met.

3. Expected Outcomes

- 3.1. In considering the following detail, the key outcome will be to provide effective scrutiny of Sandway Homes Limited to give a level of assurance that both the Council's interests in and the services provided by the company to Sefton residents are safe, well managed and offer good value for money. This report is provided for consideration following all 3 companies being the subject of review at the recent meeting of the Overview and Scrutiny Management Board.

4. Sandway Homes Limited

What are the council's objectives for the Company?

Within the approved Cabinet report of October 2017 that considered the Business Case for the creation of Sandway Homes the following detail was provided:-

The overriding objective for the Housing Development Company is:

- (1) to generate a better financial return on land assets and a revenue stream for the council,*
- (2) for the council to be seen to directly contribute to the need for 11,000 new homes in the Borough,*
- (3) to provide good quality homes that meet market needs.*

There is an overwhelming need for good quality homes within Sefton to build on the good quality stock already in existence, to tackle some of the economic barriers that will enable our youngest to remain within the Borough and to provide choice to new residents whom want to move to the Borough – whether that is to take advantage of Sefton's unique coast line, or to work in the City Region as the port expands and economic activity increases in line with our growth ambitions.

We have listened carefully, through the Vision 2030 we understand that creating environments for resilient people to thrive, grow, live and age well in addition to being able to work and play all results in shaping a greater sense of place. This in turn improves life chances and economic prosperity for our residents; the Council must play its part on leading this agenda. The advent of a housing development

company will make a significant contribution to the choices and diversity our residents both would like and would benefit from.

The aims of the project remain as:

- Increase the economic success of those citizens who purchase and/or occupy a dwelling acquired from the Housing Development Company;*
- Provide distinctive homes within the Borough;*
- To invest the revenue stream in Sefton's public services, whilst also pro-actively managing the reduction in central government grant;*
- Identify funding sources for the Housing Development Company (Capital and Revenue) which may in turn determine which delivery models are viable and sustainable;*
- Safeguard and preserve the quality of the customer experience for those whom use Council Services and access the assets we own, operate and or run;*
- Place make, meaning shaping fair, open, respectful and resilient communities where everyone is able to play their part and contribute positively;*
- Assist and make a positive contribution to the availability of houses within the Borough.*

These aims and objectives remain those that the council wishes the company to work towards.

Council Governance Arrangements

The council is committed to maintaining robust and transparent governance arrangements that:-

- Reflect best practice in the sector;
- Would stand up to external scrutiny and inspection; and
- Ensure that the company can operate effectively and also that the council's role as shareholder can be discharged to protect the Council's position (financially).

In its role as shareholder, the Council in 21/22 once again received an updated Business Plan for Phase 1 of the company's operations- with all detail being in the public domain. This plan reflected a full refresh of each area of company business that took account of:-

- The appointment of the company's new Managing Director; and
- The economic and market circumstances that had changed following the global pandemic.

This revised business case was approved by Cabinet in October 2021 . As part of this report, members were advised on the delivery timescales of each of the 3 sites in Phase 1 of operations, the number of units that would be delivered, value and timing of capital receipts, forecast dividends to the council from Phase 1 and the level of peak debt that would be required to deliver this first phase.

On that latter point, following the review it was deemed that the peak debt required by the company from the Council would need to increase from £5.1m to £8.3m. This revised business case was approved by Cabinet, subject to the provision of a robust and clear exit plan containing options that could be enacted should difficulties materialise within the company. This was provided by the company and

reported to Cabinet in December 2021- following this the revised business case was approved.

Also, during the year, a risk in respect of the company was added to the council's Corporate Risk Register which is considered at each meeting of Audit and Governance Committee. This reflected not any change in circumstance or detail, but was a reflection of scale of the company, the risks that are being managed within it and the council's financial exposure. At each meeting of Audit and Governance Committee, one risk is selected for presentation to members and the risk in respect of Sandway Homes has been considered by the committee.

During the year a full review of the company's governance arrangements and the interface with the Council was conducted. This was a joint piece of work between the council and the company, with an external legal firm, Anthony Collins commissioned to review current arrangements and make recommendations that would ensure that best practice would be followed. This work was completed largely in year with approval by the Board at the start of 22/23- this was subsequently presented to the Council's Cabinet for approval in July 2022.

In addition, the council is also making use of the local partnerships 'Local Authority Company Review Guidance' to conduct a self assessment of current operations- this will take place during 22/23 and be reported to cabinet with detail of any proposed governance recommendations. This is being led by the Council's Monitoring Officer.

The Council's shareholder representative on the Company's Board is the Cabinet Member for Housing and Communities- this role acts as an observer at each Board meeting.

During the year, in addition to the formal board meetings, the shareholder representative, Council Chief Executive and s151 Officer meet the chair of the board and managing director before each meeting to consider the latest developments within the company, review the detail of the board pack and gain insight into progress in delivery of the business plan and understanding of financial position and risks.

The council is therefore in receipt of each Board pack and also receives the monthly monitoring information produced by the company's managing director- it is this information that informs the council's investment board reports as per financial procedure rules.

Following the end of the financial year 21/22, the council side engagement with the company will be supplemented and led by the Assistant Director -Economic Growth and Housing who will be supported by the Senior Manager-Housing which will provide additional capacity and expertise. The Chief Executive and s151 Officer will continue to provide advice and support to the company and will continue to attend pre-board meeting briefings and will offer similar support and engagement to each of the council's companies in order that there is sufficient oversight. This will reflect recommended best practice.

Governance arrangements in place for the company in 2021/22

Sandway Homes Limited is a private company limited by shares incorporated in England and Wales under the Companies Act 2006 and is wholly owned by Sefton Holding company which in turn, is a wholly owned company of Sefton Council. The company was formed in 2018.

Collectively, the company's Memorandum and Articles of Association, Shareholder Agreement, Business Plan(s) and other related documentation regulates the relationship between the Council and the company and ultimately determine the operational framework for the company / Board to follow when running the company's affairs.

The objectives of the Sandway Board are:

- To support the set up and subsequent delivery of the company;
- To oversee the sourcing of specialist assistance (e.g., construction, tax, and legal advice) as required to assist the delivery of the company.
- To support the procurement and appointment of any private sector development partner.
- To identify and optimise financial resources (e.g., internal reserves and borrowing opportunities) to invest into the delivery mechanism.
- To implement and deliver the initial Phase 1 Business Plan and budget estimates for the company.
- To provide guidance to the company on the wider housing market to ensure the most effective product is being delivered.
- Identify further opportunities for expansion of the company.
- To be responsible for the effective management of the company.
- Report on progress quarterly to the Shareholder and Council representatives / other committees as required.

More specifically the role of the Sandway Board Members is as follows:

- To understand the strategic objectives, implications and outcomes of initiatives being pursued.
- To agree the risk appetite of the Board and what level of risk is not acceptable.
- Appreciate the role and significance of the objectives of wider stakeholders and the Shareholder.
- Be an advocate for and committed to the agreed outcomes to ensure the delivery of Phase 1 and subsequent Business Plan's.
- Bring specialist knowledge to Sandway, whilst at the same time taking collective responsibility for company outcomes.
- Provide effective and appropriate challenge to delivery to ensure assurance is gained.
- Alert the Board to initiatives and opportunities coming forward to assist in the delivery of the programme.

Board Membership

In accordance with the Articles of Association for the Company, each Non-Executive Director is appointed as a director in accordance with the following:

- a term of 3 years; and
- for a maximum of 2 terms, equating to a tenure of 6 years in total.
- Subject to sections 168 and 169 of the Act, the Shareholders may remove any or all Directors at any time (with or without reason) by ordinary resolution.
- The Shareholder may appoint a person as a Director either in substitution for a Director it has removed or to fill a casual vacancy.

During 2021-22 business plan period, the portfolio of local councillors was reviewed, and as such Cllr Greg Myers replaced Cllr Diane Roscoe in June 2021. In addition to Cllr Myers there remained Company Chair (Graham Kean), Gwynne Furlong and Glenn Rowson. Given the infancy of the company, sub-committees are yet to be established, however each Board Member has an allocated portfolio of responsibility to support operational matters which directly relates to their own area of professional expertise.

Dates of Board meetings and summary of content

Board meetings take place quarterly and for the 2021-22 Business Plan period, the majority of Board meetings were still held remotely due to seasonal 'peaks' of Covid-19 and some restrictions being in place until the latter part of the financial year. The Board met in June, September, December and March, and monthly management meetings continued to take place with the Management Team. Board pack review meetings are held with the Shareholder (S151 Officer / Council Chief Executive / Shareholders Representative) prior to the full Sandway Board where items are reviewed, and any changes / additional information requests are submitted. The company provides reports on performance and risk to the monthly management meeting in addition to Board. As the company has evolved, reporting content has been enhanced / incorporated to reflect the stage of the business plan (i.e., inclusion of sales and further stress testing). The standard Board agenda is as follows:

- Declarations of interest / Quorum / Minutes of last meeting / Matters arising and schedule of resolutions

- **Managing Director Report**

The purpose of the Managing Director report is to provide an overview of key Company activity within the quarter including Shareholder / Stakeholder liaison (Homes England and Liverpool City Region Combined Authority), as well as company matters including audit and risk / HR and staffing / programme performance and priorities for the next quarter. Construction of Meadow Lane and Barton Close commenced in Q4 2020-21, hence scheme performance is also covered within this main report.

- **Finance Report**

The Finance report covers the latest business plan position, including spend and income for the period / in-period movements and the latest projected business plan position. The Finance report also contains stress-testing as required to ensure that potential risk relating to sales performance and programme changes are applied to the business plan and assessed accordingly.

- **Sales Report**

The 2021-22 period witnessed the commencement of construction and sales reservations of new homes. The sales report was introduced to provide Board / Shareholder with sight of the sales dashboard and overall sales performance so as income can be scrutinised accordingly. The sales report includes details on sales values as per the latest release of homes within the period, and anticipated sales completion dates. In addition- a quarterly horizon scan of interest rates / housebuilder performance and Sandway marketing statistics are provided as part of the sales report so as wider economic factors are considered as part of the Board's forward planning and risk management.

- **Balanced Scorecard**

The Board of Directors / Shareholder have set key performance indicators for the Company against the Phase 1 Business Plan in the form of a balanced scorecard. These are divided into five key themes which are further broken down into performance objectives. The Scorecard has been an evolving document since its Company inception and provides key performance indicators (KPI) across the following areas:

1. **Financial**

Monitoring the income projections v's performance of the Company each quarter in relation to income (including grant and sales income and Shareholder dividend)

2. **Sales and Marketing**

Providing KPI monitoring on total reservations / reservation rate / sales periods and completions. These KPI's also consider the wider Company brand and marketing strategy.

3. **Customer satisfaction**

This KPI is due to become part of the monitoring system as the Company moves into sales completions during the next business plan period (2022-23). More specifically it will cover overall satisfaction with the conveyancing period and also with the property.

4. **Social value**

This indicator monitors the impact of Sandway projects on maximising spend in local supply chains, as well as monitoring local work / job opportunities / apprenticeships being created, and the wider community benefits being driven by the Company.

5. **Health & Safety**

This key performance indicator monitors Contractor performance on site and general Health and Safety across the projects and the business.

Interface with Council

Sandway has formal lines of communication and reporting mechanisms in place which feed into the wider Audit & Risk management processes within the Council. The company's specific interface with the Council is defined within the Sandway / SMBC Shareholder's Agreement which specifically requires the following:

- Statutory accounts are submitted by the Company on a quarterly basis
- Updated management accounts and any variances in projected spend are reported on a quarterly basis.

- Sales performance information and risk analysis is submitted as part of Company reporting process
- That the Company provides an annual exit strategy, providing the Council with a risk mitigation plan should any of the inherent delivery risks associated with residential property development crystallise.

During the 2021-22 Business Plan period, the company continued to provide the Council with the relevant board reporting information, and a full Cabinet update was provided in October 2021, followed by the submission of an exit strategy in December 2021. The Cabinet update provided a revised business plan position based on programme performance factoring in delays associated with Covid-19 and associated economic un-certainty.

Review of governance arrangements either in year or planned for next year

In addition to the external review of governance arrangements previously detailed, Sandway was the subject of an internal audit review during Q4 2021-22, which concluded in March 2022. This was to provide assurance that risks are being adequately managed and addressed in respect of the systems of Governance and risk management processes deployed by the company. In addition, the audit was undertaken to provide an overall opinion on the strength of internal control within the Council, which is reported on and provided by the Chief Internal Auditor, as part of the Internal Audit Annual Report.

The scope of the audit reviewed the following area of Governance:

- Company formation and Constitution requirements are complied with including:
 - o Articles of Association
 - o Certificate of Incorporation
 - o Statutory Books (registers)
 - o Role of Company Secretary
 - o Annual Return and Accounts
- Corporate obligations are being met, including:
 - o Annual Accounts
 - o Effective internal controls including
 - Budgetary controls
 - Division of duties
 - Policies and procedures
 - Codes of conduct
 - o Accounting records
 - o Board meetings
 - o Insurance arrangements

Audit findings and audit opinion were based on information obtained and sample testing undertaken during the review, with unbiased professional judgement made throughout the audit process. Areas of good practice identified included:

- The high level of experience and expertise of the Company's Board of Directors in the housing field to ensure effective decision making.

- The Senior Management team providing relevant and up to date information on a regular basis to both the Board, and the Shareholder (the Council), and;
- Board and Management Team meetings and content being in accordance with an agreed schedule, and compliant with legal requirements.

Recommendations have been incorporated into a management action plan which the senior management team are currently working to establish and implement.

Internal and external audit arrangements

As the Company progresses into the 2022-23 Business Plan period, an external auditor will be appointed to develop a full audit plan for the Company which will incorporate the following three key strands:

- Governance – ensuring that the Company maintains robust risk management processes that support the business and allows them to be fully innovative whilst ensuring efficient use of public funds.
- Financial – to provide assurance around the procurement process, and to review the mechanisms that Sandway has in place to protect assets and public funds, financial planning and business plan assumptions.
- Customer- focusing on the sales process, customer journey, complaints handling and overall services provided to customers.

Key Objectives for the Company as per the Business Plan in 2021/22

The company Business Plan (BP) is operational up to 2025 and provides a framework against which the company operates and a baseline for financial information to be reported to the Shareholder. During 2021-22, the company continued to develop the operational requirements of the business, which underpin the plan, including policies and processes, key performance indicators and an enhanced reporting framework to ensure adequate governance and assurance around construction, sales and risk was provided to the Shareholder. The key strategic objectives and purpose of the Sandway Business Plan are summarised below, along with a statement which captures the related activity for the 2021-22 period:

- To purchase land from Sefton Council which will assist with the delivery of 11,000 much needed new homes in the Borough by 2030.

Following a robust site acquisition process with SMBC, three brownfield sites with a total land value of £2.23m have been acquired by the company to deliver 141 homes. In June 2021, the company also secured SMBC Cabinet approval for work to commence on business plan development for a further 3 sites that could form part of a Phase 2.

- Generate a capital and revenue income from its investments and to generate financial profits to return to the Shareholder.

The company is required to generate financial profits (by way of a Shareholder dividend) to the Council via the sales receipts achieved from Phase 1. As part of the yearly business plan update which was provided to SMBC Cabinet in October 2021, the company confirmed a projected dividend of £1.35m.

In addition to the acquisition of land, the company is obliged to satisfy Section 106 payments associated with planning requirements, which will add a further £232k of revenue to the Council for investment into key services. The first tranche of payments are due in the subsequent business plan period (Q1 2022-23).

- Provide good quality, distinctive homes that meet market needs and aspirations within the Borough.

The homes being delivered on Sandway sites include 10 well designed and spacious house types ensuring that they appeal to a wide range of customers and income profiles. Space standards within the homes are in accordance with or in excess of nationally described space standards (NDSS) , and there is consistency in design of all affordable and open market homes.

- Provide suitable housing developments that make best use of land acquired from Sefton Council, providing housing products that meet market demands, and affordable housing that fulfils planning approval obligations.

In November 2021, Sandway successfully registered as a Help to Buy Developer, ensuring that Government loans were accessible on a % of plots for first time buyers to help them onto the property ladder. In addition to Help to Buy, affordable homes (shared ownership and affordable rent), are also included on all Sandway sites. By 31st March 2022, three of the eligible homes had been reserved for Help to Buy.

During 2021-22, sale contracts with Registered Provider, Together Housing were agreed for the acquisition of 25 properties for affordable housing with deposits of £380k received in February 2022. These contracts support the overall financial performance of the business plan, whilst ensuring that the Company provides mixed tenure homes across all Phase 1 sites.

- Realise social value for the wider community in which the company operates including the creation of employment opportunities within Sefton, including for apprentices

The company has actively encouraged local employment through their Main Contractor which has resulted in several Sefton residents (including site managers / labourers) employed to work on the Company's first phase of development. This was achieved during 2021-22 by working alongside Sefton@Work to assist with the recruitment of local residents into jobs. Local Sefton Estate Agent (Abode) have been retained to provide sales management on Phase 1 of Sandway sites.

Sandway worked with LJMU to provide an internship opportunity in August 2021 for a Finance Undergraduate. The company has more recently signed up to the SMBC Caring Business Charter and is looking to provide a placement for a Sefton

resident to take up an apprenticeship as an Administration Assistant. As part of the Kickstart initiative, Barnfield were also able to provide an apprenticeship to a local young person during 2021-22 as a site labourer who had been identified as someone not in education, employment, or training (NEET).

- Engagement with wider community

During 2021-22 Sandway and partners proactively engaged in a volunteering project via the local Woodvale Community Centre, assisting in making woodland paths winter safe. In addition, the company provides regular updates to communities living near to Sandway sites and have implemented a resident relationship management system for those residents most affected by works carried out on site.

Sandway will continue to work with local schools to raise awareness of the number of opportunities available within the construction and development sector, which will include site visits and attendance at dedicated careers events.

- Establish and operate the company as efficiently as possible

Alongside the delivery of Phase 1 and associated business operations, the company also commenced liaison with the Liverpool City Region Combined Authority in February 2022, to secure pre-development funding for a further phase of brownfield sites within the Borough. The delivery for these sites is subject to a further business case submission to SMBC, and the agreement of additional loan facilities / revolving credit which will be based on the performance of Phase 1.

- To maintain ethical and environmental standards in the specification, development, and construction of properties.

Sandway is committed to reducing energy consumption, minimising pollution and partnering with environmentally sustainable organisations. Phase 1 main contractor Barnfield are a certified Considerate Contractor which is an industry recognised code of best practice in relation to how they respect local community, care for the environment and value their workforce. Waste has been further minimised on site utilising timber frame construction, eliminating the requirement for a large volume of materials to be stored on site. Specification and design are consistent across all of the Company's house types.

Review of Performance 2021/22

"For the year ending March 2022, the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies. The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476. The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts. The draft accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime."

Summary as per annual accounts

The annual accounts for Sandway for year-end 31st March 2022 are reflective of the company transitioning into the early construction phase of its phase 1 development programme. The main activity within the period was associated with pre-construction design fees, construction payments, grant income / deposits for properties under construction, management fees and on-costs associated with phase one sites and business operations. The company continued to pay their main contractor Barnfield Construction certified construction valuations each month.

During the 2021-22 business plan period, it was essential for schemes within Sandway's Business Plan to navigate through supply chain and labour shortages brought about by the Covid-19 pandemic, particularly in relation to building supplies such as timber frames and bricks. As such, a contract Deed of Variation with Barnfield Construction was agreed in January 2022, which provided an extension of time to the contractor, at no further cost to the company.

- **Deferred Income**

The in-year deferred income amounted to £918k, this comprised of the following:

Plot reservations

At the year-end there were no properties due to be completed for sale. The first plot completions are forecast for Q1 of 2022/23 financial year. Sandway continued to receive income in the form of plot reservation fees totalling £18.5k representing 21 plot reservations (including 3 Help to Buy), which reflected 100% of the available plots having been reserved off plan.

Registered Provider income

In addition, deposits were received from Together Housing Group for the commitment to purchase 25 affordable plots across both Meadow Lane and Barton's Close sites. Deferred income received relating from Together Housing Group amounted to £388k.

Grant Funding

A drawdown claim for grant funding for Buckley Hill Lane was prepared and submitted in the financial year, this equated to £512k and was added to the deferred income in year.

- **Loan**

The original Business Plan assumed that peak debt of £5.1m would be reached in December 2021. Due to the delays associated with the programme and more specifically sales periods, the Company submitted a revised business plan to Cabinet in October 2021 seeking an increase in the loan agreement from £5.1m to £8.3m which was subsequently approved following the submission of an agreed risk and exit strategy. The company continued to make drawdowns against the loan agreement to the value of £5.16m during the financial year, with the amount owed to the shareholder on 31st March 2022 being £6.74m. Interest payable against the loan was £49k in year.

- Company overheads

Overheads for 2021-22 remained in line with the revised business plan presented to Cabinet in October 21. The overheads in year include Sandway employees and company non-executive directors. The company employed 4 full time employees during the year and 4 non-Executive directors. The company continue to engage SMBC service level agreements for services such as finance and IT support.

What will be shown in Council accounts?

All the below transactions will have corresponding entries within the SMBC financial statements:

- Grant Funding – Sandway Homes prepared a claim drawdown for expenditure incurred within the financial year to the value of £512k. The payment was processed after the year end and has created a SMBC Debtor in the Sandway accounts. The debtor was fully paid in April 2022.
- Land – The commitment to purchase land from SMBC shows a creditor of £2.23m in the balance sheet. This will be repaid in accordance with the original phase 1 business plan approval.
- Loan agreement – In year loan drawdowns amounted to £5.61m bringing the total loan balance to £6.74m in the financial statements.
- Income Statement transactions – invoices relating to interest charges, salary recharges, commercial service and other admin services have been raised by SMBC and will appear as creditors in the Sandway accounts.

Assessment of financial performance- is this on track as per Business Plan?

Despite the evolving economic un-certainty, by 31st March 2022, the company remained on track to deliver the agreed returns and proposed dividend of £1.3m which was uplifted from the previously reported £1.1m (in October 21 Cabinet report). This is due to be paid to the shareholder in March 2025. At the year end the company had drawn £6.74m of the agreed loan facility, leaving headroom of £1.56m.

Is the company financially sustainable and resilient and what are the key issues arising?

As of 31st March 2022, the company remained financially sustainable and resilient, notwithstanding the key risk which continue to be monitored by the Board and Management Team:

- Completion of schemes at Meadow Lane and Barton Close

The total value of contractually committed schemes in the Phase 1 plan is £11.93m. By March 2022, the payments to date included in 'WIP' was £5.78m, which means there is £6.15m of contractual payments outstanding for the two committed schemes. Whilst the company remains financially stable, cashflow is

heavily predicated on sales income, and this will continue to be a significant consideration for the Company in the next period.

The value of the forecast sales within the business plan, exceeds the contractual payments relating to completion of the first two sites. The company also negotiated a revised programme of sectional completions as part of the deed of variation so as homes which are reserved are prioritised for completion.

- Guaranteed maximum contract price- Buckley Hill Lane

The company was able to secure guaranteed maximum price contracts for the two live sites; Meadow Lane and Barton's Close which limited the amount of risk relating to material price increases and other associated construction costs. At the year end the company had not yet entered a committed construction contract for Buckley Hill Lane, which was due to available headroom within the business plan and the ability to commit to a further contract until sales income on the other two sites was achieved.

In addition, there has continued to be an exceptionally long lead-in for service diversions, which has prevented the Contractor from being able to agree sub-contractor package prices. If final costs are too high, the Company may need to re-tender the scheme which would have time implications for the business plan. Whilst sales prices have increased from earlier business plan projections, clearly any increase in cost will need to be considered and the business plan stress tested accordingly.

- Open market sales

House prices have continued to rise during the 2021 business plan period, which the company has looked to maximise as part of its sales strategy, with 100% of all available homes being reserved off plan by the end of March 2022.

Reservations were anticipated to remain strong during 2022-23, however rising interest rates could make sales more challenging towards the end of the period, and the company will need to review its sales strategy accordingly. Due to long build lead times, there is a risk that property prices will begin to stabilise, affecting the price achieved on Buckley Hill Lane plots, which will need to be reviewed in line with the agreed margins and internal rate of return.

- Un-sold plots

Released plots across the first two sites – Meadow Lane and Barton's Close have been well received. At the year end, all the available released plots were reserved (21 homes), and 25 affordable plots were in contract. It is expected that all remaining open market plots (22 homes) will be reserved prior to build completion. Should any plots remain un-sold for a period of 6 months+ post completion, the company would seek approval to dispose of any stock plots in accordance with the exit strategy.

Key areas of risk during the year

How is risk managed within the company, what is the role of the board and key officers?

The Sandway Board has overall responsibility for the company's approach to risk management and internal control. This includes the following:

- Ensuring the design and implementation of appropriate risk management and internal control systems that identify the risks facing the company and enable the board to make a robust assessment of the principal risks.
- Determining the nature and extent of the principal risks faced and those risks which the organisation is able to take to achieve its strategic objectives (determining its "risk appetite");
- Agreeing how the principal risks should be managed or mitigated to reduce the likelihood of their incidence or their impact.
- Monitoring and reviewing the risk management and internal control systems, and the management's process of monitoring and reviewing, and satisfying itself that they are functioning effectively, and that corrective action is being taken where necessary; and
- Ensuring sound internal and external information and communication processes and taking responsibility for external communication on risk management and internal control.

What are the key risk areas identified – how were these mitigated?

The key areas of risk for the 2021-22 business plan period were associated with the on-going impact of Covid and associated material and labour shortages on site. This led to significant risks being identified with both cashflow and sales completions, hence the Company undertook a full review of the business plan and made recommendations to the Shareholder accordingly. These were subsequently taken to SMBC Cabinet in October 2022 for consideration.

The risk mitigations required both an increase in loan facility from SMBC, (reflective of the value of works on site and delayed sales periods) and also that the contract position with Barnfield was re-negotiated by way of a deed of variation, so as payment for works moved to a sectional completion programme (i.e. payment made for each plot based on completion as opposed to the completion of the full site.)

These risk mitigations ensured that the Phase 1 programme remained on track to achieve its first unit completions in Q1 2022-23.

Are the arrangements for risk management appropriate?

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

What arrangements are in place re Fraud, Bribery, and corruption?

Sandway has a range of policies which set out expectations for employee and Director conduct. This includes policies for Gifts & Hospitality, Declaration of Interests and Disciplinary Procedure to ensure that dealings of the Company and those associated with it are beyond reproach and not influenced by the acceptance of inappropriate inducements and provide a framework for good governance regarding conflicts of interest.

Employees are required to declare interests and register gifts and hospitality in writing to the Managing Director. Directors are also required to formally declare any interests or gifts and hospitality which are reviewed as part of the statutory registers during meetings of the Board.

Sandway's Procurement Policy and associated Financial Delegations assign responsibility and provides adequate management oversight, providing a framework for ethical business and good purchasing practices.

In addition, Sandway has adopted a Modern-Day Anti-Slavery Policy which complies with all applicable anti-slavery and human trafficking laws, statutes, regulations, and codes in force and reflects Sandway's commitment to acting ethically and with integrity in all business relationships.

How does the council gain assurance as to the internal control arrangements for the company?

The company provides assurance to the Council via the following mechanisms:

- A comprehensive risk register for the Phase 1 Programme, 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, financial performance and risks. 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.
- During 2021-22, the company commenced a programme of recruitment and now employs a full time Managing Director, Head of Business Operations, Financial Controller and Graduate Trainee. This places less reliance on external consultancy support and direct oversight on company matters.

- Sandway has appointed the Council's internal audit team to provide an initial audit for 2021-22. External auditors will be appointed in the next business plan period, and a comprehensive annual audit plan will be agreed to provide further assurance and an annual review of internal controls.

Evaluation of performance in 2021/22 compared to Council objectives for setting up the company and approved Business Plan for the year

In terms of the objectives for the company that were approved by Cabinet in 2017, these remain valid and the company continues to work towards them. As reported previously, in 2021/22, there was the full refresh of the Business Plan and exit plan that were approved by cabinet and these suggested that over the 3 sites in Phase 2:-

- 141 houses would be delivered
- A capital receipt for the 3 sites in Phase 1 totalling £2.2m would be received by the council in March 2024
- A dividend of £1.3m would be received by the council from Phase 1 in March 2025.

This position at the end of the financial year remains what the company is working towards.

Sales in respect of the first 2 sites that have been developed namely Meadow Lane and Bartons Close, are progressing well, which support the view from the company which has been communicated to the council that these sites will deliver the quantity of homes and financial return that the council has approved. The first completions are due before the end of July 2022

The third site at Buckley Hill Lane, is yet to start development. In light of current market conditions , especially as a result of national inflation, the delivery of this site will require careful and detailed monitoring and reporting back to cabinet. Discussions are to be held by the company with the main contractor , Barnfield Construction in September/October 2022 with a view to agreeing the value of the contract for development. The business plan has an assumption as the value of this contract that takes account of inflation however any variation from this could impact the overall dividend due. At this stage it is too early to revise any estimates as increased costs due to inflation are often offset by higher sales prices if they can be accommodated by the market, but this will be the key activity during the year that will determine and influence the financial performance from Phase 1.

In terms of overall performance in year therefore, it is reported and can be considered that the 2 sites at Meadow Lane and Barton's Close are progressing as detailed in the approved Business Plan. As would be expected as work has yet to commence or indeed the contract value with the main contractor has yet to be agreed in respect of Buckley Hill Lane this remains a risk however discussions are planned to agree the timeline for development and contract value in accordance with the overall Plan- if there are any material variations to that in the Business Plan these will be reported to cabinet.

What are the Delivery and Improvement Plans for 2022/23

2022/23 will be a key year for the company in the delivery of the first 3 sites in its Phase 1, as completions progress throughout the year at Meadow Lane and Barton's Close and the final contract value for Buckley Hill Lane is agreed.

The outturn report to this Overview and Scrutiny meeting represents the first time that a comprehensive and consolidated annual report has been produced for members and this will continue from this point on.

As with previous years, an update on this current business plan will be presented to Cabinet for approval in Autumn of 2022. This detail and the financial forecasts contained it will inform the council's Medium Term Financial Plan for the next 3 years and budget report that will be considered by full council in March 2023.

As has been stated in previous cabinet reports any material variations to the approved business plan will be reported back to members for decision at the earliest opportunity.

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 has been 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

This bid has been 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 in during 2023 so although a governance report is not expected in 2022/23, if the work is completed in advance of this date it may come through in year.