

Report to:	Cabinet	Date of Meeting:	7 December 2023
Subject:	Phase 1 Business Plan for Sandway Homes Ltd.		
Report of:	Assistant Director Growth and Housing	Wards Affected:	All
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	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 the revised Business Plan approved by Cabinet in September 2023.

As agreed in the paper considered by Cabinet in September 2023 this report provides an update on delivery of construction activity and forecast financial performance, comparing this to the previously agreed Business Plan.

The report will also provide details of the current progress in respect of Phase 2 Business Planning.

Recommendation(s):

Cabinet is requested to:

1. Note the updated position of the Phase 1 Business Plan approved by Cabinet in September 2023.
2. Consider the range of external economic factors and risks that have the potential to impact the delivery and financial performance of the Phase 1 Business Plan and confirm acceptance and understanding of these and the material impact that they may have.
3. Note the current position in relation to Phase 2 Business plan, and that if there are any further material variations to this a further report will be brought to Cabinet at the earliest opportunity.

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, 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. We are currently in the midst of a 'housing crisis' driven by a shortage of high quality, secure and affordable homes for our residents. Sandway Homes has helped meet some of this shortfall, and the recommendations, and the proposals for future phases outlined in this paper will ensure that they continue to do so. The homes that Sandway are developing in the borough will 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 financial implications are included in the report	
Legal Implications:	
None.	
Equality Implications:	
None.	
Impact on Children and Young People:	
No Impact	
Climate Emergency Implications:	
The recommendations within this report will	
Have a positive impact	No
Have a neutral impact	No
Have a negative impact	Yes
The Author has undertaken the Climate Emergency training for report authors	Yes

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 (FD7423/23) and the Chief Legal and Democratic Officer (LD5623/23) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

None

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Implementation Date for the Decision

Following the expiry of the "call-in" period for the Minutes of the Cabinet Meeting.

Appendices:

None.

Background Papers:

None

1. Introduction/Background

- 1.1 The need for more housing in the borough is well established, and outlined in the adopted Local Plan formally adopted by Cabinet on the 20th April 2017. The Local Plan details a requirement for 11,000 new homes over the plan period to 2030. Since the adoption of the Local Plan securing good quality affordable homes has become an even greater challenge for our residents follow the pandemic, and the 'cost of living' crisis.
- 1.2 The council set up Sandway Homes in 2018 in response to the critical need for new homes in the borough to help meet housing need by providing high quality affordable and outright sale homes, and social housing in Sefton. The Phase 1 Business Plan was approved by Cabinet in July 2019 and comprised three sites:
- Bartons Close, Crossens
 - Meadow Lane, Ainsdale
 - Buckley Hill Lane, Netherton
- 1.3 Since approval development has commenced at Bartons Close in Crossens, and Meadow Lane in Ainsdale. Both sites are well on the way to being completed, delivering 78 homes, 25 of which are available as affordable housing. However, as with all housebuilders, Sandway has been impacted by the wider economic issues being seen across the country.
- 1.4 Since the approval of the Phase 1 Business Plan Cabinet has been provided with updates in September 2020, October 2021, December 2022, and September 2023.
- External Economic Climate
- 1.5 Members were briefed as part of the update provided in September 2023 on the current economic environment, on the back of wider and unprecedented post pandemic economic uncertainty. This continues to be extremely challenging for businesses and residents with rising interest rates, and high inflation and the cost of living crisis..
- 1.6 The impact on the housing sector is particularly sensitive to these operating conditions and has impacted the company due to:
- Mortgage rates increasing meaning that previous mortgage deals will have either been removed from the market or increased in cost, thereby making potential buyers revisit their plans. Economists predict that further rises in interest rates could further weaken the UK's housing market.
 - Potential buyers having fewer financial resources to purchase a home.
 - Supply chain issues leading to works delays; and
 - Inflation pushing up prices for construction works.
- 1.7 The operating environment for housebuilders like Sandway has not improved in the 3 months since the last update. This report provides a further update on the delivery of the Phase 1 Business Plan along with an overview of Phase 1A the development of the former Bootle High school which will be presented to Cabinet for approval in July/August 2024

2. Construction Programme Update

2.1 At the Cabinet meeting of September 2023 Cabinet was advised that the estimated completion of the two current sites at Meadow Lane, Ainsdale and Bartons Close, Crossens was delayed compared to the previous update presented in December 2022.

2.2 As a consequence of the ongoing economic challenges the estimated completion of both the Meadow Lane and Bartons Close site has slipped. As reported in September it was anticipated that Bartons Close would be completed by August, and Meadow Lane by October 2023. However, it is now anticipated that both sites will now be completed by December 2023. Bartons Close is largely complete with only the minor works to be finished.

Table 1 below summaries these changes:

Table 1: Estimated Completion of Phase 1 sites

Site	December 2022		September 2023		December 2023	
	Start on Site	Completion	Start on Site	Completion	Start on Site	Completion
Meadow Lane, Ainsdale	Dec 2020	July 2023	Dec 2020	Oct 2023	Dec 2020	Dec 2023
Bartons Close, Crossens	Feb 2021	May 2023	Feb 2021	July/Aug 2023	Feb 2021	Dec 2023
Buckley Hill Lane, Netherton	April 2023	July 2025	Oct 2023	Nov 2025	Nov 2023	May 2025

Bartons Close:

2.3 Progress continues at Bartons Close, with 12 completions taking place in the 2022/23 financial year, and a further 4 completions up to the period ending October 2023. The conclusion of the Section 38 agreement with SMBC highways and the S104 agreement with United Utilities is on-going due to the required technical changes requested by the Council regarding the adoption of parking bays and a turning head, after initial technical approval having been received.

2.4 As outlined above construction is expected to be completed by December 2023. There are currently 4 unreserved properties at the site, however the team is confident these will be reserved due to the homes being available for viewing due to reduced site construction.

2.5 One positive outcome of the current challenges facing the housebuilding sector is that a number of housebuilders are seeking to sell more properties directly to social housing providers. Sandway has also seen the same trend and a social

housing provider has expressed an interest in purchasing an additional 3 homes on the Bartons Close site and 2 on Meadow Lane. This would be over and above the planning policy required affordable housing already provided on the site. Should the social housing provider acquire these properties only 1 home would be left to be sold. It should be noted that bulk sales such as the one being discussed with the social housing provider would typically take place between 90 – 95% of market value, however, if this transaction did take place the financial impact can be contained within the current estimates in this report. In the event that social housing provider does not purchase these 5 properties the company as stated still believe that they will sell all the remaining homes on the open market.

- 2.6 The provision of additional affordable housing on newbuild sites across the borough is generally welcomed because as members know the current economic challenges has led to an increase in the demand for this type of accommodation.
- 2.6 The Company is currently waiting on formal offer and timeframe from the social housing provider on this positive option to sell these additional properties.
- 2.7 In addition, the site has attracted a number of cash buyers which has helped protect from the current economic uncertainty regarding mortgage rates. However, the ongoing economic challenges remain a risk to current reservations and the company is seeking to move these forward to completion as soon as possible.

Table 2: Summary of sales at Bartons Close

Unreserved	4	20%
Cash	4	20%
1 st time Buyer	4	20%
Sale / Mortgage	8	40%

Meadow Lane

- 2.8 Meadow Lane achieved 12 open market sales in the 2022/23 financial year, with a further 11 completions to the period ending 31st October. The site currently has 3 unreserved properties. Sandway is optimistic the remaining homes will be reserved before the construction is completed in December 2023, and have robust sales and marketing plans in place. As with Bartons Close, a number of reservations at this site are cash buyers, however there are also a number of first-time buyers, who may be more impacted by the increasing mortgage rates.
- 2.9 The team is in regular contact with the sales agent to review sales prices and ensure they are in line with market valuations. All recent house valuations have been achieved. The company will continue to monitor market prices. There is a small amount of sales incentive remaining for the two live sites, which can be used should there be a decrease in sales valuations.

Table 3: Summary of Sales at Meadow Lane

Unreserved	3	9%
Cash	13	39%
1 st time Buyer	8	24%
Sale / Mortgage	9	27%

From this analysis and update the company are advising the council that both sites are in a favourable position with regard to final sales and completions

Buckley Hill Lane

- 2.10 As outlined in the update provided to Cabinet in September 2023, the Buckley Hill Lane scheme was re-tendered in order to achieve best value for the company. The contract sum has now been confirmed and the contractor took possession of the site in early November. Construction is estimated to take 20-months with the contract split over 5 phases with sectional completions in each phase which will allow construction to pause if there is a significant downturn in the market. This is a key risk management feature and reflects both learning from the first 2 sites and also the current economic conditions that are impacting the sector.
- 2.11 On the 2nd November Cabinet approved a proposal for the Council to acquire 18 apartments, a mix of 1 and 2 bedrooms across two separate apartment blocks, on the site for use as Council Housing. The homes will be provided to households in housing need at social rent level and is a major milestone in the Council's strategy to intervene directly in the market to help address housing need in the borough.
- 2.12 In addition to the new Council owned homes, a social housing provider has made an offer on eight two-bedroom houses, and this would represent a significant reduction in sales risk for the company leaving 37 of the 45 open market homes to sell

3. Financial Performance

- 3.1 In September 2023, Cabinet were informed that the dividend from this first phase would be £300,880 and this is expected to remain unchanged. The dividend payable to the Council is in addition to the capital receipt from the 3 sites of £2.2m.
- 3.2 Delivery of this dividend is dependent on a number of factors including achieving estimated sales valuations and sales rates at Buckley Hill Lane and the company maintaining its cashflow position in terms of further loan drawdowns. However, as outlined below all risks are being carefully managed. The Council's Medium Term Financial Plan will need to be updated to reflect this position.
- 3.3 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. 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 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.
- 3.4 Similarly, construction costs and contingencies have increased during the last 12 months that take account of inflation, supply chain issues and as outlined above changes introduced by Government to the Building Regulations.
- 3.5 Because Phase 1 has taken longer than originally anticipated the company will be carrying overhead costs for a longer period and the full impact of this is to be

determined. As reported, most of the 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 £3.35m.

- 3.6 This is a slight reduction from the figure reported in December 2022 due to a small reallocation of overhead that should have been allocated to construction costs. If 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. Although not formally agreed, the team is currently monitoring time spent on phase 2 site investigations.

4 Timing of Dividend and Debt Repayment

- 4.1 In September 2023 Cabinet was advised that due to the issues discussed in this report, without any changes to the approach to construction the dividend and Phase 1 debt would be payable in November 2025. This position remains unchanged. As discussed earlier in the report, as the company looks to present the council with a business plan for the next site to ensure a continuation of activity and to build on the progress of Phase 1, a key decision for the council will be the level of cash flow funding to be provided for that phase and how this is treated- for example will this be a continuation of the current facility both in terms and level of funding or will a separate agreement be required. Work on the options available will commence at the start of 2024 and be presented to members. Ultimately the level of risk or support required will not change however the governance of that arrangement will be important to define.

Members are asked to note that the loan agreement between the council and the company has recently been updated and this has been signed by both parties and sealed by the council's legal team.

5. Risks

- 5.1 Sandway has a risk register which is considered both in management meetings and by the Board. A summary of the main risks and mitigating actions, and the potential impact on the council as at November 2023 for Phase 1 is below:

Risk	Mitigating Action	Potential Impact
Failure to find buyers and/or to realise the predicted valuations for the unsold plots on the Phase 1 sites	Ongoing monitoring of the housing market. Ensure works are measured in line with the valuations to ensure financial exposure is limited. Utilise incentives to stimulate sales if needed Current sales forecast is based on prudent open	Potential impact on the dividend

	<p>market sales values and a sales rate of 3 completions per month. Sales rates will also be reviewed in line with market conditions</p> <p>Sale to an investor or Registered Provider</p> <p>Retention of the properties for use as Council Housing</p>	
Further delays on the diversion of services at Buckley Hill Lane, may lead to a review of the contract sum with potential cost increases	Monthly project meeting with the contractor to ensure site is on programme and budget	<p>Potential impact on the dividend</p> <p>Reputational risk from failure to meet the obligations under the Brownfield Land Fund</p>
Further interest rate rises impacting on mortgage rates for buys	The Buckley Hill Lane contract gives the ability to pause construction as part of the sectional completions within the JCT design and Build contract if market slows	Reputational risk from failure to meet the obligations under the Brownfield Land Fund
Programme delays	Phasing plan produced and agreed. There will be penalties if each phased handover is missed	Reputational risk for the council if there are delays or issues such as unresolved snagging works
Contractor Failure	Insolvency cover from contractor will ensure there are funds to appoint a new contractor should they be unable to fulfil the contract. This is part of the contract documents	Delays while a new contractor is appointed may lead to reputational risk

6. Future Schemes

- 6.1 As previously highlighted to Cabinet Sandway has been working on proposals for two sites at the former Bootle High School site and land at Benthams Way in Southport as part of a Phase 2 Business Plan.
- 6.2 Following the report to Cabinet in September 2023, there has been a further review of the schemes originally identified as Phase 2. Both the Bootle High and Benthams Way sites have received Combined Authority (CA) funding totalling £1.03m. However, the proposal at Bootle High has progressed further than Bentham's Way and it is now proposed that the phasing of future schemes is amended and that development of the Bootle High site is completed in two parts with the first housing on the site developed as a standalone scheme as part of a Phase 1A business plan proposal.

Phase 1 A

- 6.3 The Bootle High Phase 1 scheme which was submitted for planning at the end of October comprises 53 homes, of which 8 are designated affordable housing with the remaining 45 for outright sale.
- 6.4 The scheme would be tendered via a single stage tendering process based solely on contract sum. Ten contractors have been identified and expressions of interest have been sent out.
- 6.5 It was originally reported that a report for relating to this proposal for Bootle High Phase 1 would be presented in February 2024. However further financial modelling has concluded that the scheme cannot start on site until October/November 2024 due to the impact on Sandway's peak debt position and therefore the tendering process has been deferred. The current intention is that a report will be provided to Cabinet in July/August 2024 as at that stage the company will have a firm contract sum available to inform decision making. .

Phase 2

- 6.6 The company has identified several pipeline schemes that will form a future pipeline of schemes. These schemes have the capacity to realise the development of further 421 homes to the borough. The schemes identified are:

Site	Plots
Bootle High -Phase 2	23
Dale Acre	32
Bentham's Way	70
Forest Road	46
Ainsdale Hope	234
PDC	16
Total	421

6.7 By 2031 Sandway aim to have delivered 615 new homes in the Borough. To date the feasibility costs relating to Bartons Close and Meadow Lane have been secured via CA funding. However, there is no further funding anticipated for future sites until April 2025. Sandway wants to maintain the momentum of development and is proposing that feasibility costs are funded within the current business plan. We have received estimated costs for this work across several site which totals circa. £3,000,000. As additional CA funding is anticipated in March 2025 it is hoped that these feasibility costs could be funded via new CA funding streams.

6.8 Feasibility Cost Table

	Bootle High - Phase 2	Dale Acre	Bentham's	Forest Rd	Ainsdale	PDC	Total
PLOTS	23	32	70	46	234	16	421
HIGH-LEVEL BUDGET FEES TO END OF RIBA STAGE 3	310,989	310,989	560,262	355,629	1,173,228	378,778	3,089,875

6.9 Timing of Feasibility costs

Site	Plots	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Bootle High 1		Feasibility	Start on Site	Sales Period					
Bootle High 2	23		Feasibility	Start on Site	Sales Period				
Bentham's Way	70		Feasibility	Start on Site	Sales Period				
PDC	16			Feasibility	Start on Site	Sales Period			
Dale Acre	32			Feasibility	Start on Site	Sales Period			
Forrest Road Depot	46				Feasibility	Start on Site	Sales Period		
Ainsdale Hope - Phase 1	78			Feasibility***	Start on Site	Sales Period			
Ainsdale Hope - Phase 2	78					Start on Site	Sales Period		
Ainsdale Hope - Phase 3	78						Start on Site	Sales Period	
	421		871,251	1,862,995	355,629				

(*** Feasibility for Ainsdale hope assumed to be funded by new combine authority funding)

7. Conclusion

7.1 As members are aware the economic turmoil affecting the country has not significantly improved since the last update was provided in September and as is the case with all housebuilders this has impacted on the Business Plan. However, the risks associated with this are being closely managed, and this update forms part of that approach to ensure that members are regularly updated during this difficult period.

7.2 The first two sites at Bartons Close and Meadow Lane are largely complete and although sales have slowed, the company is advising the council that it is confident that all the plots will be sold. As reported in September adjustments

have been made to the delivery of the final site at Buckley Hill Lane to provide more control, notably the inclusion of phasing arrangements in the contract so that delivery can be slowed down should sales also slow further. The company has a strong and growing brand profile, a popular product and is working closely with marketers to continue to deliver in the most challenging of contexts. Testament to the confidence in the quality of the product can be evidenced by virtue of ongoing interest in the properties currently marketed for open market sale, by a number of Housing Associations.

- 7.3 As is the case with all districts Sefton is experiencing significant housing pressures at present, particularly in homeless. The drivers of these issues are national and economic in nature and beyond the scope of influence that the council has. However, we can respond locally and intervening directly in the market is an opportunity to help provide the housing that so desperately needed in Sefton. Sandway has provided affordable and market housing in the borough and will continue to deliver those much needed properties including 18 council properties on the next site at Buckley Hill Lane. Sandway should not be seen in isolation of the Council Housing Programme as both initiatives support each other and has the potential to make a real impact for our residents over the next few years.
- 7.4 As noted in September had the Council disposed of these sites to private developers, it would have simply received a capital receipt (which in all likelihood would have been eroded over time and through negotiation, due to market conditions and impacts on deliverability and viability). Sandway has not sought to renegotiate, and the Council can be reassured of receiving the originally negotiated capital receipt. It has provided a loan facility which it benefits from a return on as well as repayment, and the company is also delivering a dividend (albeit this has reduced for all the aforementioned reasons).
- 7.5 The Company has also made great efforts to deliver housing estates which are fully Policy compliant, and deliver the highest standards of development, internal and external spaces, interface distances and gardens, affordable housing and other infrastructure and obligations. All, thus far, on Brownfield sites which have proven hitherto to have an absence of any major market interest and to be challenging to develop in many ways.
- 7.6 The Company continues to deliver housing numbers, housing quality and a return to the Council, all of which underpinned the original aims and objectives of the initial business case, and all those iterations reported subsequently. Any further changes to either the risk profile, or the actual or forecast company outputs will be reported to Cabinet.