

<b>Report to:</b>	<b>Overview and Scrutiny Committee- Regeneration and Skills</b>	<b>Date of Meeting:</b>	16 January 2024
<b>Subject:</b>	2022 / 23 Outturn Review of Council Wholly Owned Companies – Sandway Homes		
<b>Report of:</b>	Assistant Director (Place)	<b>Wards Affected:</b>	All Wards
<b>Cabinet Portfolio:</b>	<b>Communities &amp; Housing</b>		
<b>Is this a Key Decision:</b>	No	<b>Included in Forward Plan:</b>	N/A
<b>Exempt / Confidential Report:</b>	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;
- (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 Council's three 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 arising from this report specifically. Equality impacts and mitigations for the company are addressed via the strategy and business plan for years beyond the period to which this report relates.

### Climate Emergency Implications:

The recommendations within this report will:

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

There are no environmental implications arising from this report specifically. Sustainability and environmental impacts and mitigations for the company are addressed via the strategy and business plan for years beyond the period to which this report relates, and are to be reported separately.

## Contribution to the Council's Core Purpose:

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

Protect the most vulnerable

Facilitate confident and resilient communities: SHL adds housing choice within the heart of Sefton's Communities, facilitating confidence

Commission, broker and provide core services: Projected future returns to the Council, as sole shareholder of SHL 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 building a better sense of place.
Facilitate sustainable economic prosperity: SHL makes 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: SHL has identified opportunities to commission a greater level of social value.
Cleaner Greener: Developments by SHL are 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.7480) and the Chief Legal and Democratic Officer (LD.5580) have been consulted and any comments have been incorporated into the report.

### (B) External Consultations

Engagement and information provision was sought from the board and management of the company 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 Ltd for the year 2022/23.
- 1.3 The same process is undertaken in the other wholly owned companies as well, and on an ongoing basis good practice and lessons learned relating to governance are shared between the companies.

## **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 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.

## **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, Cabinet in 2022/23 once again received an updated and comprehensive 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, and amends to the Business Plan that resulted from this.

As part of this report in December 2022 Cabinet were advised of changes to 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.

In addition, Cabinet were informed that the council was also making use of the local partnerships 'Local Authority Company Review Guidance' to conduct a self-assessment of current operations-this exercise was completed by the Councils monitoring officer. In March 2023 a governance audit and a financial sustainability audit were undertaken. The results of which were reported to the shareholder and recommendations actioned.

The Councils shareholder representative on the Company's Board in 2022/23 was the Cabinet Member for Communities and Housing. This role, and any Council Officers in attendance at Board Meetings act in an observer role only.

During the year, in addition to the formal board meetings, the shareholder representative, Council Chief Executive and s151 Officer met the chair of the board and Managing Director on a regular basis to consider the latest developments within the company, and gain insight into progress in delivery of the business plan and understanding of financial position and risks.

The council also receives the monthly monitoring information produced by the company's head of operations- it is this information that informs the council's internal review and reporting as per financial procedure rules.

### **Governance arrangements in place for the company in 2022/23**

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.

In the 2022/23 year, Gywnne Furlong stepped down from the board (and was replaced by Brian Cronin in January 2023).

#### Dates of Board meetings and summary of content

Board meetings take place quarterly and for the 2022-23 Business Plan period the Board met in March, June, November and January, 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 (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.

- Sales Report

The 2022/23 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.

- 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.

- **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 (2023-24). More specifically it will cover overall satisfaction with the conveyancing period and 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 annual 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 2022/23 Business Plan period, the company continued to provide the Council with the relevant board reporting information, and a full Cabinet update was provided in December 2022. 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 July 2022 Cabinet considered a report outlining governance arrangements for the Sefton Holding Company and Sandway Homes Limited.

The report considered revisions to the Articles of Association of the Holding Company and adoption by Sandway Homes. The report also approved the filing with Companies House, the adoption of an amended Governance Agreement and entry into the Intra-Group Agreement.

The Intra-Group Agreement is focused on how the Council works together with SHC and Sandway Homes as a group but also has the same set of Reserved matters incorporated as in the Governance Agreement, allowing for a complete flowthrough of decision making in a consistent manner.

#### Internal and external audit arrangements

Although not a formal requirement, the company undertook an external audit of the 2021/22 financial statements. This company received a clean audit report and accounts were filed with Companies House. Moving into the 2022/23, a further audit will be conducted that will test the company's sales process and income recognition. As the Company progresses into the 2022/23 Business Plan period, an external auditor has been 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 2022/23**

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 2022/23, 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 2022/23 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. At the update in December 2022 Cabinet was advised that due to the adverse operating environment this had been revised to £1,050,475. (This was subsequently revised to £300,888 as at July 2023, again primarily driven by the economic conditions in the UK and the impact on the housing sector both nationally and locally).

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 homes being delivered on Sandway sites include a number of 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.

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. All 25 properties have now been handed over to Together Housing

*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 2022/23 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.

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*

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 continues to liaise with the Liverpool City Region Combined, to secure pre-development funding for a further phase of brownfield sites within the Borough.

*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 is 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 on some of the houses 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 2022/23**

In 22/23 the company moved to start construction and sales on 2 of the 3 sites, namely Bartons Close and Meadow Lane. These will deliver 30 and 48 properties respectively on each site. Construction on the 3rd site, BHL, 63 units, commenced in December 2023.

Annual accounts have been produced by the company and will be posted to Companies House by the required deadline of 31 March 2024. The accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime. Copies will be provided to members of the committee.

### Summary as per annual accounts

The annual accounts for Sandway for year-end 31st March 2023 are reflective of the company transitioning from the early construction phase of its phase 1 development programme, to successfully delivering and selling new homes. The main activity within the period remained, construction payments, with the first sales completions taking place within the year. Sales Income /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.

### *Plot reservations*

At the year-end the company had delivered 24 open market completions. This was made up of 12 plots at Meadow Lane (Sandy Brook) and 12 plots at Barton's Close (Hey Farm Gardens). This generated £5.9m of Income. Reservations remained strong with all released plots being reserved off plan.

### *Registered Provider income*

In addition, 11 Together Housing plots were completed in year: 5 plots at Meadow Lane and 6 plots at Bartons close. This realised £1.8m of the contract value. Further staged payments relating to the remaining 14 plots were received from Together Housing Group. The balance of the Deferred income received from Together Housing Group amounted to £1.4m.

### *Grant Funding*

A drawdown claim for grant funding for Buckley Hill Lane was prepared and submitted in the financial year, this equated to £538k 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 did not make any further drawdowns against the loan agreement during the 2022-23 financial year, with the amount owed to the shareholder on 31st March 2023 being £6.74m. Interest payable against the loan was £173k in year.

### *Company overheads*

The overheads in year include Sandway employees and company non-executive directors. The company employed 5 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 £50k. The payment was processed after the year end and has created a SMBC Debtor in the Sandway accounts.
- 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 – 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 2023, 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), more recently updated to £0.3m.

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 2023, 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 (excluding BHL). By March 2023, the value of contractually committed sums had reduced to £2.0m. 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.

- 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 Bartons 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. The company did need to retender for the Buckley Hill Lane scheme which resulted in a much higher construction cost and led to the reduced dividend position quoted above

- Open market sales

House prices have continued to rise during the current 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 2023.

Reservations remained strong during 2022-23, however rising interest rates would make sales more challenging in the next financial year, 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 March 2023, 75% of plots at Meadow Lane were reserved or completed, similarly at Bartons close 87% of plots were reserved or completed. The company expected that the remaining plots will be reserved as they become available. 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 2022/23 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 on 1<sup>st</sup> December 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.)

Are the arrangements for risk management appropriate?

The Company has appointed the Council's Internal Audit team to provide Internal Audit services with audit work being completed in both 21/22 and 2022/23- recommendations from this work have been provided to both the company and the council (with detail of this being provided to Audit and Governance committee). 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 2022-23, 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.

**Evaluation of performance in 2022/23 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 2022/23 and 2023/24, there was a full refresh of the Business Plan and exit plan that were approved by Cabinet. The current position is as follows:

- 141 houses would be delivered in Phase 1
- A capital receipt for the 3 sites in Phase 1 totaling £2.2m would be received by the council in November 2025
- A dividend of £0.3m would be received by the council from Phase 1 in November 2025.

As is the case with the housebuilding sector generally the company has been affected by wider economic issues which has delayed delivery on the first two

new housing in the borough, and although reservations have slowed they continue to be made.


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.

Because of the economic challenges the third site at Buckley Hill Lane, did not start onsite until Q3 2023/24 year. 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. The contract with main contractor Challenger includes the opportunity to slow down construction in line with the rates properties are being reserved and sold in order to better manage sales risk.

In terms of overall performance in year therefore, it is reported and can be considered that the 3 sites included in Phase 1 at Meadow Lane, Barton's Close and Buckley Hill Lane are progressing as detailed in the approved Business Plan.

2022/23 Delivery Summary:

**Plot Summary:**

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**Revenue:**

**Meadow Lane (Sandy Brook)**

- Completions: Total 17
- Open Market: 12 plots
- Revenue: £3.07m
- Affordable Housing: 5 plots
- Revenue: £0.95m

**Barton's Close (Hey Farm Gardens)**

- Completions: Total 18
- Open Market: 12 plots
- Revenue: £2.8m
- Affordable Housing: 6 plots
- Revenue: £0.88m

**Loan details:**

- Drawn Down loan value: £6.743m
- Available Headroom: £1.557m
- Interest Payable: £0.173m

**Construction Contract commitments:****Meadow Lane**

- Contract Value: £7.4m
- Balance at Year end: £0.71m

**Bartons Close**

- Contract Value: £4.2m
- Balance at Year end: £0.2m

**Buckley Hill Lane**

- Not in contract at year end

**What are the Delivery and Improvement Plans for 2023/24**

2023/24 will be a key year for the company as the final sales are completed at Bartons Close and Meadow Lane, and construction of properties at Buckley Hill Lane progresses. In addition, proposals for Phase 1A and Phase 2 which are estimated to deliver 474 new homes over 6 sites are currently being prepared with a view to consideration by Cabinet.

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.