

# Worst-Case Scenario: Cornovii Financial Failure and Council Exposure

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## Cash Flow Collapse at Cornovii Developments

Core Risk: Cornovii's entire business model depends on using loaned public money to build homes, sell them promptly, and repay the council. If market conditions suppress buyer demand (as they have), and houses sit unsold, Cornovii cannot generate the income needed to pay interest or roll forward development capital.

Knock-On Effect: The company may then need to request:

- Loan restructuring or payment holidays;
- More working capital or bridging loans from SC;
- Deferment or cancellation of development schemes already committed to.

## Council Exposure to Bad Debt

SC currently acts as sole creditor and underwriter for Cornovii. The loan facility stands at up to £69 million.

In a no-sale environment, SC becomes:

- An involuntary landlord (if Cornovii defaults and the homes can't be sold);
- Potentially stuck with non-performing loans, leading to a write-down or provision in SC's already beleaguered accounts;
- Liable to breach its own prudential borrowing limits.

## Exacerbation of Council's Financial Crisis

Shropshire Council is facing serious financial challenges, with severe restrictions on non-essential spending.

If Cornovii defaults or underperforms:

- SC could face a credibility crisis;
- The £69m loan facility and any unpaid interest could show up as bad debt;
- Political opponents and the public could accuse the administration of negligence.

## Governance Fallout and Reputational Risk

Cross-directorships place Harpreet Rayet at the centre of any accountability storm.

If internal asset transfers mask unsold inventory, it may appear as creative accounting.

The council risks accusations of mismanagement, especially if governance is perceived as weak.

### **Escalation Paths**

Audit Investigation: External auditors may raise formal concerns.

Regulatory or Government Intervention: DLUHC could step in during a Section 114 scenario.

Company Insolvency or Dormancy: Cornovii may be wound down or mothballed.

### **Political and Public Implications**

The council may face political resignations and severe media criticism.

Harder to justify continued investment in Cornovii while statutory services are underfunded.

Public outrage over perceived conflicts of interest and financial risk.

### **What Could Mitigate It?**

Immediate pause on new developments.

Rapid disposal of completed homes.

Transfer assets into the Housing Revenue Account.

Independent financial review or board restructure.

DLUHC support package conditional on governance reform or wind-down.