



**EXECUTIVE OVERVIEW & SCRUTINY
COMMITTEE: 23rd September 2021**

CABINET: 14th September 2021

Report of: Chief Operating Officer

Relevant Portfolio Holder: Councillor I Moran

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**SUBJECT: INDEPENDENT REVIEW OF TAWD VALLEY DEVELOPMENTS
LIMITED**

Borough Wide Interest

1.0 PURPOSE OF THE REPORT

1.1 To seek authority to instruct Local Partnerships to undertake an independent review of Tawd Valley Developments Limited as outlined in the scope in section 6.3 of this report.

2.0 RECOMMENDATIONS FOR CABINET

- 2.1 That authority is granted to the Chief Operating Officer in consultation with the portfolio holder to take all necessary steps to progress the independent review as outlined in the scope in section 6.3 and present their findings to Council at the earliest opportunity.
- 2.2 To approve a maximum investment of £10,000 to undertake the review
- 2.3 That the Chief Operating Officer be given delegated authority in consultation with the relevant Portfolio Holder to consider any agreed comments from Executive Overview & Scrutiny Committee.
- 2.4 That Call In is not appropriate for this item as the Report is being submitted to a special meeting of the Executive Overview & Scrutiny Committee on the 23rd September 2021

3.0 **RECOMMENDATIONS FOR EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE**

- 3.1 Consideration be given to the Report and any agreed comments be forwarded to the Chief Operating Officer in consultation with the relevant Portfolio Holder for consideration.

4.0 **BACKGROUND**

- 4.1 Tawd Valley Development Company Limited (TVDL) is a wholly Council owned development company established in 2018. The Development Company was created in order to enter the development market in West Lancashire, to acquire sites and deliver new homes for the residents of the borough, and to also consider commercial developments and developments outside the Borough.

- 4.2 The Development Company was the chosen option of the Council as:

- the initial financial viability assessments indicated that site development could deliver a sustainable and profitable enterprise
- the Council received the Grant Funding (780k DCLG) to facilitate the formation and site preparation of a Development Company to deliver the Development Objectives
- the Development Company created a separate legal entity which could attract further grant funding into the borough
- the Development Company would be controlled by the Council and would allow the Council to prioritise its Development Objectives

- 4.3 The agreed development objectives of TVD are:

- Generate a financial return for the Council through development of profitable services/activities, recognising that this will take time to be realised.
- Capture any financial benefits and tax efficiencies of dedicated delivery vehicles which are Council controlled but can benefit from agile operating arrangements.
- Provide an income from the new vehicle that is substantial and the new ways of working so transformational that the cost of planning, due diligence advice and setting up and operating the vehicle outweigh the status quo.
- Create profitable, complementary and transparent relationships with landowners, developers and investors which deliver financial and regeneration benefits.
- Secure additional private and Government investment into the Borough, creating a focus on delivery and providing a mechanism to build new homes for sale and rent, regeneration and commercial and industrial schemes to the Council.
- Maximise appropriate development, accelerate growth and take appropriate risks for the Council by providing dedicated delivery arrangements and property and commercial expertise.

- 4.4 A series of legal agreements govern the relationship between TVDL and the Council. TVDL has an independent Board consisting of 4 Directors, 2 Council Officers and two independents appointed through a selection process.
- 4.5 A cross party TVDL Shareholders Cabinet Working Group was established in September 2020 to provide transparency and:
- Oversee and monitor the delivery of the Business Plan for the TVDL and consider opportunities identified by the Board for future projects
 - Act as the consultee and provide recommendations to the Chief Operating Officer on the exercise of her delegation to determine all matters, as the Shareholder for the TVDL, on behalf of the Council
- 4.6 TVDL produces an annual Business Plan which is approved by Council, any variations to the BP require Council approval. The Business Plan was approved in February 2021 and outlines an ambition to build 363 homes across 3 phases of delivery over a 5 year period.

5.0 CURRENT POSITION

- 5.1 The operating environment of commercial companies has changed since TVDL's inception in 2018, recently and significantly as a result of the Covid-19 pandemic and Brexit.
- 5.2 In May 2021 the Council moved to a position of no overall control. Members have since sought reassurance that the Business Plan is still fit for purpose and clarification is sought on whether the current Business Plan serves the best interests of the Council going forward and what, if any other measures could be taken to protect/improve the Council's budget position.
- 5.3 TVDL requires Council support for key decisions such as approval of new schemes and revisions to the Business Plan. Without such approvals the current forecast profit within the Business Plan is at risk. As an agreed dividend will be returned to the Council this presents a financial risk to the Council.
- 5.4 The Council has an identified budget gap of £1.2m which needs to be addressed to meet the corporate priority of being financially sustainable by 2023 and satisfy external audit requirements. The approved TVDL Business Plan forecasts a healthy profit over the 5-year life of the plan which could be used to address a significant proportion of the budget gap. From a financial perspective it is essential that in setting the 2022/23 budget, the Council has certainty over the expected returns from TVDL. The budget setting timetable has commenced, and it is imperative early clarity is obtained.
- 5.5 The current Council medium term financial forecast contains an assumption of a dividend return each year over the next 3 years and any changes to that, either positive or negative will have a direct impact on the Council's savings requirement in order to achieve a balanced budget.
- 5.6 In this context (5.1-5.5) to resolve the uncertainty an independent review is required as a matter of urgency to allow Members to decide whether the

Council's aims are best served by the continued operation of TVDL within the current Business Plan framework.

- 5.7 Following detailed research in line with procurement rules it is recommended that Local Partnerships (LP), undertake the review on behalf of the Council based on their independence, experience and cost. LP are a joint venture between the Local Government Association, HM Treasury and the Welsh Government. They are recommended as their principal responsibility is to deliver expert support to the public sector, helping make best use of limited resources as demand for services continues to rise. They have also conducted numerous reviews of other local government development companies within the last year. More information about LP can be found at <https://localpartnerships.org.uk/>
- 5.8 LP have proposed a team to lead this review who have a high level of expertise in commercial activity, housing & regeneration, and finance.
- 5.9 The appointment of LP could be progressed in line with procurement requirements. Three quotes were sought from suitably qualified organisations via established procurement frameworks. Of these other organisations, two providers did not respond, and one provided an estimated cost of £50k. Local Partnerships therefore represents a strong value for money option for the Council and has a strong track record of undertaking work of this nature across local government
- 5.10 The Council's external auditors have confirmed that LP are a suitable organisation to undertake such a review.

6.0 SCOPE OF THE REVIEW

- 6.1 The independent review of TVDL will provide Members with an independent understanding of the viability of TVDL, the opportunities and risks TVDL presents to the Council, other options to address Members concerns and ultimately to allow Members to make an informed decision as to the future of TVDL.
- 6.2 The review will involve the following elements:
- Documents review
 - Stakeholder consultation; party leaders, members of TVDL Shareholders Cabinet Working Group, Council Officers and TVDL Officers.
 - Report writing and action planning
 - Report presentation
- 6.3 The scope of the review has been developed following feedback from Members. The scope:
- An opinion of the current financial position of TVDL and the forecast deliverability of the profitability projection.

- A view of the likely future returns to the Council in the short and medium term through TVDL's continuing operation and delivery of its Business Plan
- An assessment of the financial outcome to the Councils Medium Term Financial Forecast and wider financial position of either:
 - continuing with the current business plan
 - implementing a wind down of the amount of activities of TVDL
- An opinion of any other alternative options for developing new homes that would be considered beneficial to the Council including the Council's ability to undertake development internally
- An assessment and opinion/view on the reasonableness of the overhead recovery costs incurred to the HRA for development works undertaken
- An assessment of options for how estate regeneration such as previously achieved in Firbeck and Beechtrees could be achieved
- An assessment of the risk and reward of TVDL building new market housing, particularly outside of the Borough as proposed in Phase 3 of the current Business Plan
- An assessment of the governance arrangements of TVDL, its appraisal and approval process of projects both in and out of borough and its consideration and management of risk in spending finance provided by the Council and or Homes England
- An assessment of the benefit to the Council (and TVDL) and the personal and organisational risk placing an elected Member on the TVDL Board as a Board Director
- An assessment of the social and economic benefits provided by TVDL to date and recommendations as to how this could, if required, be improved
- A view of the wider local government landscape identifying if other councils are utilising such models in order to generate additional revenue
- Confirmation of the Council's ability to undertake development at scale and generate profit with TVDL/without TVDL in line with the Localism Act 2011 requirement.

6.4 The independent report will be presented to full Council for consideration at the earliest opportunity to assist members in determining the future direction of TVDL.

6.5 It would be prudent and demonstrate value for money to allow Council to take a decision on the future direction of TVDL prior to engaging any additional external specialist support to advise on the best course of action to achieve the agreed outcome.

7.0 SUSTAINABILITY IMPLICATIONS

7.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

8.0 FINANCIAL AND RESOURCE IMPLICATIONS

- 8.1 LP and the LGA have proposed a model for delivering the review whereby WLBC will pay one third of the total cost of the review. The cost to the Council of the review is expected to require a maximum investment of £10,000 which can be funded through existing budgets.
- 8.2 The review will involve discussions with a number of officers within the Council, TVDL staff and members. There will also be a requirement to provide information such as financial and legal documentation as required for the review.

9.0 RISK ASSESSMENT

- 9.1 The performance of TVDL is a key factor in the Council's ability to achieve a balanced budget over the medium term. Uncertainty surrounding the future direction of TVDL presents a significant risk to the delivery of the current Business Plan and consequently to the financial returns to the Council.
- 9.2 Trading activity from TVDL provides an opportunity to return significant annual dividends which can be used to benefit the Councils revenue and reserve position and enable greater investment in public services. Therefore, uncertainty around the future trading position of TVDL presents a risk to the Councils financial position.
- 9.3 In the current uncertain financial climate and the unknown impact of the pending comprehensive spending review, any additional income streams the Council is able to generate will be of benefit to the Councils revenue position.
- 9.4 The independent review will allow Members to make an informed judgement as to the future of TVDL in the light of factual evidence and in the best interests of West Lancashire.

10.0 HEALTH & WELLBEING IMPLICATIONS

- 10.1 The development of new homes by the Council will improve the living conditions for a number of residents of West Lancashire. The current housing waiting list identifies many families that are living in unsuitable conditions such as overcrowding or non DDA compliant.
- 10.2 New homes are built to a high energy efficiency standard which reduces the carbon footprint and also the cost of energy to the resident.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore, no Equality Impact Assessment is required.