



COUNCIL: 20<sup>th</sup> July 2022

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**Report of:** Head of Finance, Procurement and Commercial Services

**Contact for further information:** Marc Taylor (Ext 5092)  
Marc.Taylor@westlancs.gov.uk

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**SUBJECT: FUTURE DIRECTION FOR TAWD VALLEY DEVELOPMENTS LTD**

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Wards affected: Borough wide

## **1.0 PURPOSE OF THE REPORT**

1.1 To set out a series of proposals to reset and refocus the aims, objectives and activities of Tawd Valley Developments Ltd (TVDL), the Council's wholly owned development company.

## **2.0 RECOMMENDATION**

2.1 That the proposals set out in section 8 be approved and that a new Business Plan be drawn up on this basis.

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## **3.0 BACKGROUND**

3.1 The proposed new approach has, as context, the aims and objectives for TVDL as per the Business Plan approved by Council in February 2021, relevant extracts from the independent review of TVDL by Local Partnerships, the Borough's housing and economic needs and the impact of changes to the Prudential Code, as detailed below.

## **4.0 EXISTING AIMS AND OBJECTIVES**

4.1 TVDL 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. 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 to facilitate the formation and ongoing operation of a Development Company to deliver the Development Objectives;

the Development Company would create a separate legal entity which can attract further grant funding into the borough;

the Development Company would be controlled by the Council and will allow the Council to prioritise its Development Objectives.

4.2 The TVDL 2021 Business Plan described the overall aims and objectives of Tawd Valley Developments to develop sites within West Lancashire and the surrounding area, whilst making financial returns for its shareholder, the Council. The Plan also described the Aims and Objectives for the Council. The Council is the sole shareholder and funder of the Company and identified the following aims and objectives:

- i. Generate a financial return for the Council through development of profitable services/activities, recognising that this will take time to be realised.
- ii. Capture any financial benefits and tax efficiencies of dedicated delivery vehicles which are Council controlled but can benefit from agile operating arrangements.
- iii. Provide an income from the new vehicle 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.
- iv. Create profitable, complementary and transparent relationships with landowners, developers and investors which deliver financial and regeneration benefits.
- v. 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.

- vi. Maximise appropriate development, accelerate growth and take appropriate risks for the Council by providing dedicated delivery arrangements and property and commercial expertise.

4.3 Page 3, Para 1.3 of the Business Plan states that TVDL will, to build on the current net profit margin, focus on identifying suitable sites in West Lancashire and the wider region. Market sale homes, generating a healthy return, will be a specific focus as new sites are identified based on the experiences and lessons of progressing the Phase One sites through viability, into contract, and the review and rationalisation of the sites in Phase Two.

## **5.0 LOCAL PARTNERSHIPS REVIEW OF TVDL**

5.1 The Council commissioned Local Partnerships LLP to conduct an independent review of the company to 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.

5.2 The results of the Local Partnerships Review contained 13 recommendations for the consideration of Members, which have previously been reported to Council. An update on progress against each of these points is contained in Appendix 1. Steady progress is being made against these recommendations, and this report addresses a range of these issues.

5.3 Given the actual and forecast success of the TVDL Phase 1 Business Plan in delivering 81 high quality, new affordable homes for Council tenants, an alignment with the Borough's housing needs should be a priority but not to overlook that TVDL is a commercial development company which provides the opportunity to also address non housing priorities.

## **6.0 THE BOROUGH'S HOUSING AND ECONOMIC NEEDS**

6.1 In general West Lancashire has a good functioning housing market with fairly robust values, but Skelmersdale values have historically been lower than the rest of the Borough. Old Skelmersdale values are likely to be slightly higher than the former new town parts of Skelmersdale.

6.2 The housing market areas could be described as: Skelmersdale, Market towns of Ormskirk, Burscough and Aughton and then the rural areas. Values in the rural areas are generally higher, followed by the Market Towns with Skelmersdale generally at the lower end.

6.3 The dwelling stock in the Borough is predominantly of larger homes, with a greater average number of bedrooms and a high proportion of detached homes (30% of all housing in 2011, compared with 22% nationally). Rural

areas see a particularly large proportion of detached homes with the stock of Skelmersdale being dominated by terraced housing.

- 6.4 There is a high level of home ownership with and without a mortgage in the borough but Skelmersdale shows a different tenure profile more in favour of rented as the dominant tenure. It should be borne in mind though that most of the Council housing rented stock is based in Skelmersdale.
- 6.5 The Council's new housing strategy is being developed, however the delivery objectives 2014-2019 and 2020-2021 which remain relevant are:
- Achieve the right supply of new homes including maximising affordable housing
  - Regenerate and remodel areas of Skelmersdale
  - Make the best use of all existing homes
  - Encourage well managed and maintained homes across all tenures
  - Encourage investment to meet specialist housing requirements
  - Deliver the Council's Sustainable Energy Strategy Residential and Domestic Sector objectives.
- 6.6 Further, in terms of the Affordable Housing Need in the Borough:
- The 2018 housing need survey suggests an annual net shortfall of affordable housing units of 120 per annum. This compares to the Local Plan residential delivery targets of approximately 300 units per annum.
  - In affordable tenure terms the survey recognises a need for affordable rent and shared ownership with delivery in favour of affordable rent.
- 6.7 The housing need survey also demonstrates a need for Older Persons housing. West Lancashire has an ageing population and so we need to be mindful of the impact of the ageing population not only in housing need terms but also economic terms. Going forward there is a need to try and develop appropriate housing solutions for our older population. This may include downsizing solutions, possibly provision of extra care in Skelmersdale, ensuring new housing meets building regulation standards where appropriate in line with existing local planning policy.
- 6.8 There is a need to develop supported housing solutions for a range of vulnerable groups such as adults and / or children with autism, learning disability, and physical disability. There is a need to improve the quality of refuge provision and work is underway to improve supported accommodation for young people.
- 6.9 The concept of placemaking has to date been an aspiration for both the Council and TVDL when planning the development of new schemes where environmental improvements 'outside of the red line' have sought to spread the benefit of the new scheme to a wider community. The most recent scheme at Fairlie has provided the best opportunity to date to plan in the wider benefits at the earliest of stages, seeking opportunity to improve the

health and wellbeing of local residents, not just residents of the new properties.

- 6.10 From an economic perspective TVDL could support the Council's strategic economic ambitions in terms of business space provision and the requirement to generate income from commercial activity.
- 6.11 West Lancashire plays a vital role in the region's economy contributing in the region of £1.2Bn annually towards the wider Lancashire economy. In the current Local Plan 2012 to 2027 employment development in West Lancashire should continue to provide for advanced manufacturing and distribution and provide for higher quality business premises and offices for professional services. Green construction and green technologies are also encouraged.
- 6.12 Further, given West Lancashire's strategic location on the edge of three city regions, it is recognised that these major conurbations will be the location for new technologies related to zero carbon developments, the construction of renewable energy schemes, the retrofitting of new and existing homes and business premises to be more energy efficient. West Lancashire is well placed to be a location of choice for such business.
- 6.13 Aligned to the Local Plan, the Council Plan explaining the Council Vision and Priorities for 2020-2023 announces West Lancashire together; as a the place of choice to live, work, visit and invest.
- 6.14 The identified priorities include: The Support of businesses to adapt and prosper where 'We want' West Lancashire to be the place of choice to locate your business and 'We want' to help businesses in West Lancashire to thrive, grow and connect supported by a Local Plan that supports quality growth and infrastructure in the Borough.
- 6.15 Delivering new, modern, sustainable and income generating business units will provide a tangible outcome for this identified priority.
- 6.16 In addition the Plan aspires to become a Greener West Lancashire and wants to optimise the development of solar/wind farm investment. Such development will support West Lancashire to be a financially sustainable Council underpinned by pursuing commercial investment opportunities where appropriate and maximising the value from existing assets and maintaining a focus on value for money.

## **7.0 THE PRUDENTIAL CODE AND ITS IMPACT ON TVDL**

- 7.1 Members of the TVDL Shareholder Committee – March 2022 - were provided with an overview of the PWLB Borrowing Guidance (Aug 2021) and CIPFA Prudential Code (Dec 2021) and Guidance Notes (Jan 2022) in response to the queries raised at Council from the Local Partnerships Independent Review of TVDL.

- 7.2 The report was a broad and balanced report explaining the guidance in detail and what could and could not be done. In the case of out of borough activity, the report states - new borrowing from PWLB and on-lending to TVDL, for sites outside the borough that do not meet the housing needs of Council, is not allowed. Further, the report also states - new borrowing from PWLB and on-lending to TVDL, for sites outside the borough, in neighbouring districts that meet the housing needs of the Council, for all tenures, is allowed.
- 7.3 It is important to note that the Prudential Code will not impact on TVDL's ability to develop within the West Lancashire Borough where the Council's Housing Revenue Account funds homes for Council ownership or indeed the use of Council resources/ borrowing for in borough Open Market Sale or other home ownership tenures.
- 7.4 In addition, commercial development company activity could, by choice and with agreement of the shareholder, be funded out of borough by third parties, such as neighbouring local authorities or registered providers of social housing. An example of this is the acquisition and potential development of a site at Much Hoole for a Housing Association. Here, the purchase and pre-development costs have been borne through TVDL working capital, however subject to the approval of formal agreements, the Housing Association could fund the scheme from their own resources, including any Homes England funds they attract, on a monthly cashflow basis. TVDL could either develop out the site or sell the site with planning permission. Each route would see TVDL make a level of profit from this venture outside of the Borough.
- 7.5 A key point to also emphasise is the balance between the provision of affordable housing and other home ownership tenures both in terms of business planning but also the practicality of delivering a successful scheme. Delivering for third parties or developing for open market sale provides the opportunity for TVDL and therefore the Council to benefit from a greater fee and therefore income (to firstly ensure TVDL is self sustaining) and profitability. Appendix 2 provides a framework for consideration about the risk and reward associated with the delivery of houses for open market sale.
- 7.6 Mixed tenure housing schemes are commonplace particularly where sites are developed for the public sector. It has recently become a Homes England funding requirement that sites larger than 30 units have mixed affordable tenure. For example the Council's Fairlie development will be providing 37 affordable rent and 13 affordable rent to buy homes in line with Homes England requirements. Furthermore, adding a sales market to a scheme provides the opportunity for greater income into an appraisal and therefore improves the chances of its viability. TVDL are currently assessing such an opportunity where talks between TVDL as developer, Homes England as part funder and a Registered Provider could deliver a viable shared ownership scheme in West Lancashire to meet local housing need. The Council would act as conduit in acquiring the land and attracting the full allowance of Homes England funds to the scheme but on completion would sell the remaining

equity to the Registered Provider and transfer the Homes England funding responsibility.

7.7 The opportunity to generate a greater profit return from Open Market Sale activity alongside the capability of TVDL to engage with the Council in the delivery of its economic and business space provision activities as outlined in section 6 above would support the need to ensure TVDL is self sustaining.

## **8.0 A RESET AND REFOCUSSED TVDL DEVELOPMENT STRATEGY AND BUSINESS PLAN**

8.1 To date and in accordance with the Business Plan approved in February 2021 and the aspirations of the shareholder, TVDL has progressed a pipeline of new opportunities both in and out of borough. This provided a focus for a mixture of Affordable homes and Open Market Sale homes both in and out of borough, with out of borough unrestricted across the North West.

8.2 It is now proposed that a revised Development Strategy incorporating the headlines in table 1 below will be progressed. This follows the logic of addressing directly local housing and economic needs as per Section 6 above and the regulated use of public sector funding as described in Section 7. Under this new approach development will generally be limited to in Borough schemes only, which reflects the resolutions of the TVDL Shareholder Committee in June 2022.

8.3 It is proposed that this activity will be based upon the refocused aim of TVDL which will:

Seek to develop sites within West Lancashire with the fundamental aim of supporting the housing and economic needs of the residents of the borough whilst making financial returns for its shareholder, the Council, and only undertaking work in adjacent boroughs for other Local Authorities or Registered Providers.

8.4 It is proposed that this new aim will incorporate a set of revised development objectives formed around the development activity proposed in table 1 below and aligned, where proven viable, with other strategies and plans of the Council. As an example, the Climate Change Strategy and Action Plan approved by Council in July 2020 which includes, amongst numerous actions across various disciplines, the adoption of zero carbon build targets. The TVDL Appraisal Process which incorporates a series of Gateways would be amended to align this new approach with the selection, appraisal and approval of projects.

**Table 1 – Revising the Development Strategy**

<b>Proposed TVD Development Activity</b>
Within West Lancashire for all forms of Development <ul style="list-style-type: none"><li>• Homes for Accessible Tenure</li><li>• Homes for Open Market Sale</li><li>• Regeneration Schemes with West Lancashire Borough Council</li><li>• Non Housing Development Schemes</li></ul>
In Adjacent Boroughs <ul style="list-style-type: none"><li>• Work for other Local Authorities or Registered Providers</li></ul>

- 8.5 A new Business Plan incorporating the proposed revised aims and new objectives for TVDL will incorporate the almost complete Phase 1, together with the former Phase 2 and Phase 3 components of the Plan which will require change. The Plan will comprise known projects, diversifying the project scope to include supporting WLBC with wider forms of development such as estate regeneration, business units and a potential solar farm. The new plan will deliver outcomes that address the needs of West Lancashire residents, rather than simply building as many housing units as possible. The plan will focus on delivering affordable homes within the Borough in line with Housing need, with only 4/5 (primarily small) schemes for open market sale where there is a strong business case that merits taking on the commercial risks involved.
- 8.6 It is also proposed that the Business Plan will be drawn up on the following basis to reflect the resolutions agreed at the TVDL Shareholder Committee meeting in June 2022 in relation to a number of reports:
- i. That the land owned by TVDL at Much Hoole be disposed of without further development. This approach would generate a lower profit than developing the site but also carries a lower level of risk.
  - ii. That a more active approach is taken to loan drawdowns and repayments between the Council and TVDL. This would then mean that fluctuations in cash held by TVDL could be smoothed out and that TVDL could achieve a lower overall amount of average cash holdings. In other words, new loan funding could be taken out by TVDL just before payments become due and then repayments made when their cash balances are relatively high. This would reduce the interest costs paid by the Company to the Council and lower the amount of cash the Council needs to invest in the Company.

- iii. That TVDL charge the Council a development fee for any future schemes based on cost recovery without a profit margin. This would cover both pre-development and development activity delivered by TVDL. TVDL would apportion staff time and maintain time records against activities forecast annually, charge the Council accordingly and reconcile annually. By way of an example, assuming 70% of TVDL activities are to plan for or deliver works for the HRA then 70% of the annual overhead would be charged to the HRA. Assuming 20% of TVDL activities are to plan for or deliver works for the GRA then 20% of the annual TVDL overhead would be charged to the GRA. Assuming the final 10% of TVDL activity is delivery for third party organisations or open market sale, TVDL would seek a level of return and therefore profitability in accordance with the level of risk versus reward associated with the scheme and its viability.

## **9.0 RESOURCE AND FINANCIAL IMPLICATIONS**

- 9.1 The Council has provided £0.9m of equity funding and £1.575m of loan funding to TVDL. It is not expected that any further equity funding will be provided to the company, and the level of loan funding will depend on the completion of existing schemes, the next business plan that is agreed, and the proposed new approach to cash and borrowing set out above. The Council earns a commercial rate of interest on its loan funding to TVDL and can also receive dividends depending on the future profitability of the Company.
- 9.2 It is expected that the new approach on more actively managing loans will lead to a lower level of borrowing, and consequently lower interest income than would otherwise be the case. The new cost recovery approach on works that TVDL undertake for the Council will also lead to a significant reduction in forecast profitability for the Company. The Council's medium term financial forecasts will need to be updated to reflect this position.

## **10.0 SUSTAINABILITY IMPLICATIONS**

- 10.1 The development of new quality homes at an affordable rent and for market sale, will support the Council's vision of being a place of choice to live, work, visit and invest and will contribute to the Council's priorities. It will bring economic activity into the local area including employment and training opportunities.
- 10.2 The affordable homes will increase the sustainability of the Council's Housing Revenue Account Business Plan through the growth in homes and income from rent. It will also help to offset the HRA properties that are lost each year through Right to Buy Sales.

## **11.0 RISK ASSESSMENT**

11.1 The Council provides financial support to TVDL through equity funding and loan funding, and can receive returns in the form of interest on loans and dividends. The proposed new direction set out in this report should reduce the financial risks of owning TVDL but is also likely to reduce the returns that can be realised.

## **12.0 HEALTH AND WELLBEING IMPLICATIONS**

12.1 The quality of an individual's housing can be a major factor in their health and wellbeing. The Development Company will build quality new homes with modern facilities that will provide the necessary environment to promote and support good health and wellbeing.

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### **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.

### **Appendices**

1. Progress on the Independent Review Recommendations
2. Open Market Sale – Risk v Reward