

CHORLEY BOROUGH COUNCIL

Housing Transfer Committee

12th September 2006

Report Title: FINANCIAL ISSUES TO BE ADDRESSED IN THE POST BALLOT PERIOD

1. Purpose

1.1 The purpose of this report is to inform the Committee of the range of financial issues that will need to be considered in the post ballot period.

2. Recommendations

2.1 The Committee is asked: -

- to note and comment on the contents of this report.

3. Background

3.1 In the post ballot period, agreement will need to be reached on the financial arrangements for the transfer of assets from the Council and a range of services that may be provided to and from the Council.

3.2 In the absence of any formal agreement on both the assets that will transfer and the service provision arrangements this report is intended to set the scene for future discussions and negotiations with the Chorley Community Housing (CCH) and to obtain the initial views of Members on the possible arrangements.

3.3 Details of the various types of financial transactions that are envisaged are set out in the following paragraphs.

4. Stock Valuation

4.1 Normally there would be intense negotiations on the valuation of the housing stock between the local authority and the acquiring landlord in the post ballot period.

4.2 The provisional valuation of the stock has been fixed at £2.7 million which is just sufficient to meet the costs of setting up the transfer. All existing Council HRA debt, estimated at some £8 million, will be written off by DCLG.

4.3 In these circumstances there is little advantage in the Council seeking to increase the valuation as this would simply result in a reduction in the amount of debt to be written off by DCLG and would benefit neither the Council nor CCH and the tenants.

- 4.4 Conversely the Council cannot afford to accept a reduction in the provisional stock valuation as such reduction would result in setting up costs having to be met directly from Council resources.
- 4.5 It is therefore accepted in principle by both parties that the provisional valuation of £2.7 million is “fixed” and that the negotiation will focus on the other financial arrangements that will be put in place, as shown in the following paragraphs. However, as a safeguard, the Council should seek an indemnity from CCH in respect of any excess costs.

5. Sale of Assets not included in the Valuation

- 5.1 It is expected that the Council will wish to dispose of the following assets, although not all of these would necessarily be acquired by CCH:-

Building Maintenance DLO

- Vehicles
- Plant and machinery
- Depot and stores (medium term possibility)

Housing Management

- Rent arrears – current arrears
- Former tenants' arrears
- Sundry debtors
- Service charge arrears

Premises and Land

- Development land excluded from the transfer
- IT equipment
- IT systems
- Office furniture and equipment

Staff

- Outstanding car leases and loans in respect of transferring staff

6. Disengagement Issues

There are a large number of disengagement issues which will need to be considered during the post ballot period. These include

- IT issues
- Telephony issues
- Service level Agreements
- Staff issues
- Car leases and loans
- Homelessness and Allocation Service
- Inventories
- Land transfer
- Accommodation
- Procurement

7. Longer Term Arrangements

It is usual for the transfer agreement to include arrangements for the Council to share in some of the financial benefits that will accrue to CCH over a period of years following the transfer. Typically these arrangements would include:

- 7.1 **Development clawback** – with the Council taking a share of any future commercial development values generated on land disposed of as part of the transfer.
- 7.2 **Right to Buy clawback** – with the Council taking a share of the income from RTB sales post transfer. (Detailed arrangements to be negotiated).
- 7.3 **VAT Shelter** – as Members are aware, it is intended that the VAT shelter arrangements will be applied to the stock transfer. Depending on the actual detail the arrangements may be set up in a way that the Council shares in any benefit over and above that allowed for in the CCH business plan
- 7.4 In this context it has already been agreed in principle that the costs of environmental warranties and Pension Scheme underfunding in respect of transferring staff will be a first charge against the monies generated through the VAT Shelter arrangements.

8. Provision of Services

- 8.1 It is expected that the Council will provide a range of services to CCH in the first year of operation. These may include:-
 - Office accommodation and allied services
 - IT
 - Financial services
 - Legal
 - Human resources
 - Grounds maintenance
- 8.2 It is also possible that CCH will provide services to the Council such as:
 - Support in carrying out statutory housing services
 - Support in emergency planning

In each case a detailed service level agreement will need to be drawn up and the content and price agreed between the two parties.

9. Set Up Costs

- 9.1 As reported to the Executive Cabinet meeting on 24 August, it is estimated that the post-ballot set up costs will be in the order of £432,000 for the Council and £1,043,000 for CCH.

The CCH costs will be funded by a loan from the Council that is technically repayable at the point of transfer. However in reality all CCH set up costs will be met from the stock transfer valuation.

The Council will be expected to agree that loan in respect of the post ballot costs incurred on behalf of CCH will be written off if the transfer does not proceed for whatever reason.

EBWNL - 22 August 2006