

METROPOLITAN BOROUGH OF WIRRAL

CABINET- 6 MAY 2004

REPORT OF THE DIRECTOR OF HOUSING & ENVIRONMENTAL PROTECTION

HOUSING STOCK TRANSFER – APPOINTMENT OF LEAD CONSULTANTS

1.0 EXECUTIVE SUMMARY

- 1.1 Cabinet is requested to note the tenants' ballot result which voted in favour of transfer of the Council's housing stock to Wirral Partnership Homes.
- 1.2 Following the successful ballot, Cabinet is requested to approve the appointment of lead consultants to help effect the transfer of the Council's housing stock to Wirral Partnership Homes.
- 1.3 The Council's housing stock has a negative value and there are set up costs in the region of £6m for the new housing organisation and these will need to be covered within its business plan. The Council is developing a 'deal in the round' to work with Wirral Partnership Homes to develop a viable transfer organisation.
- 1.4 The Council's pre-ballot lead consultant was PricewaterhouseCoopers (PWC) who have assisted the Council in formulating the 'Deal in the Round'. Cabinet are requested to appoint PWC jointly with Wirral Partnership Homes to act as post ballot lead consultant and to do so as a single tender under the Council's contract procedure rules.

2.0 BACKGROUND

- 2.1 Cabinet on 22 January 2003 and Council on 10 February 2003 agreed the proposal to seek to transfer the Council's housing stock to achieve the "decent homes" standard and wider investment needs for Wirral's housing and to apply for a place on the Government's Stock Transfer Programme for 2003. It was further agreed to seek transfer to a new local housing company rather than an existing registered social landlord (RSL). The Office of the Deputy Prime Minister (ODPM) approved Wirral's application in July 2003.
- 2.2 During 2003 the shadow organisation, Wirral Partnership Homes was developed and the offer document setting out the services and improvements that the new organisation would deliver to tenants should tenants vote in favour of the transfer proposal was agreed. Tenants were requested to consider the offer and a secret postal ballot was held during March and April 2004.
- 2.3 On 14 April the formal ballot concluded with a turnout of 61 per cent of all council tenants voting with 77 per cent voting in favour of the proposal to transfer ownership and management of their homes to Wirral Partnership Homes.

3.0 APPOINTMENT OF POST BALLOT CONSULTANTS

- 3.1 The Council has continued to work on the basis that the transfer of its housing stock to Wirral Partnership Homes will involve a relationship where the two organisations work in partnership for the good of the wider Wirral community.
- 3.2 The starting point for the two organisations working closely together is the need to make a viable transfer. The Council is unable to comply with the Government's Decent Home

requirements without the investment which an independent RSL like Wirral Partnership Homes can bring. However, Wirral Partnership Homes will be faced with finding finance for the £1m negative valuation of the stock and the set up costs of around £6m.

- 3.3 In order to ensure that a viable transfer can take place the Council and the new organisation will be required to work together to develop a 'Deal in the Round' which will ensure the existing liabilities and assets can be shared between the two organisations equitably and to mutual advantage. With a balanced approach to the transfer of assets and liabilities, it should ensure that Wirral Partnership Homes would have a viable business plan that will cover the set up costs. The Council and Wirral Partnership Homes wish to develop a longer term relationship and this will develop from the close working required to set up the new organisation over the next six months.
- 3.4 The Council's pre-ballot lead adviser was PricewaterhouseCoopers (PWC) and they have assisted in the development of the 'Deal in the Round'. In traditional stock transfers it is usual for the Council and the new organisation each to appoint their own sets of advisers independent of one another to negotiate the transfer agreement. However for the Wirral transfer it would be much more sensible to work together in order to develop a viable transfer, without agreement the transfer would founder. As PWC have worked for the Council and with the developing Wirral Partnership Homes pre-ballot, they have the background knowledge and ability to continue to work for both parties in developing the transfer agreement up to the actual transfer.
- 3.5 We have sought the views of both the Office of the Deputy Prime Minister (ODPM) and of the lead RSL regulator, the Housing Corporation (HC) to such an arrangement. Both have indicated that such an arrangement is acceptable and that the ultimate test will be that a transfer agreement is developed which will allow for the setting up of a viable new RSL capable of delivering the promises made to tenants.
- 3.6 Wirral Partnership Homes have appointed Trowers and Hamlins as their post ballot legal consultants. They too have been involved in the development of the 'Deal in the Round' proposals from the initial concept. Trowers and Hamlins will therefore develop the transfer agreement working in partnership with the Borough Solicitor who will represent the Council's interests.

4.0 THE PROPOSALS FROM PRICEWATERHOUSE COOPERS

- 4.1 In summary PWC will provide core advice to both the Council and Wirral Partnership Homes. At crucial points independent advisers will be sought to validate key information such as the transfer valuation, RSL business plan and the valuation of assets transferring.
- 4.2 PWC would provide key services to Wirral Partnership Homes including:
- Assistance with registration with HC
 - Financial and business planning advice
 - Advice and development of IT systems
 - Post ballot project management
 - Board and Committee development
 - Assistance in developing new policies and procedures
 - Assisting in organisational development
 - Advice on company type and development including seeking charitable status
- 4.3 PWC would provide key services to the Council including:

- Valuation of the transfer
- Treatment of proceeds of RTBs
- Dealing with contractual commitments and developing agency agreements
- Advising on the corporate impact of the stock transfer
- Developing the transfer agreement
- Seeking ODPM consent
- Support in the development of the secondary ballot involving tenants on the Beechwood and Ballantyne estate

4.4 The proposal has a number of advantages:

- Removing duplication in project management
- Reduced negotiation time
- Developing close partnership working
- Having a clear and understood review process for the valuation models and transfer agreement

5.0 WIRRAL PARTNERSHIP HOMES COMMENTS

5.1 Wirral Partnership Homes shadow board have met and considered the PWC proposal and they agreed to appointment of PWC subject to:

- the Council agreeing the proposal
- the development of a suitable arbitration methodology
- comments made by the ODPM and HC on the proposal
- clarification by PWC on certain aspects of their proposal

5.2 As we have already noted in this report the ODPM and HC have subsequently agreed to the proposal for the joint appointment of PWC.

5.3 The Finance Committee of Wirral Partnership Homes have subsequently met with PWC and clarified the aspects of the proposal where they had questions.

5.4 PWC have now developed an arbitration methodology and this is contained in Appendix 1 attached to this report. This will be shared with Wirral Partnership Homes at their next shadow board meeting.

6.0 FINANCIAL AND STAFFING IMPLICATIONS

6.1 PWC's costs for the post ballot work for both the Council and Wirral Partnership Homes are £337,795. These will be met from the set up costs budget, which is subject to another report on this Cabinet agenda.

6.2 Cabinet is requested to agree the appointment of PWC under section 5.2 of the Council's contract procedure rules within the Council's Constitution. Section 5.2 states that a single tender may be invited for the supply of services from a contractor already engaged by the Council if the Cabinet considers that it would be in the Council's best interest. PWC have developed the Council's approach to transfer from the initial stock options appraisal in 2002. The company has a great deal of detailed information and understanding of both the Council's position and of the business plan and operational requirements of Wirral Partnership Homes from their pre-ballot work for the Council. PWC have been involved in formulating the 'Deal in the Round' concept and it would not be easy for another lead consultant to be appointed to come in pick up this concept and work with the Council and Wirral Partnership Homes to make it a practical reality. From all stakeholders' perspective, PWC have performed to a high standard in their work so far.

7.0 EQUAL OPPORTUNITIES

7.1 None arising directly from this report.

8.0 LOCAL AGENDA 21 IMPLICATIONS

8.1 None arising directly from this report.

9.0 LOCAL MEMBER SUPPORT IMPLICATIONS

9.1 All wards are affected by the stock transfer proposal.

10.0 HUMAN RIGHTS IMPLICATIONS

10.1 None arising directly from this report.

11.0 COMMUNITY SAFETY IMPLICATIONS

11.1 None arising directly from this report.

12.0 PLANNING IMPLICATIONS

12.1 None arising directly from this report

13.0 BACKGROUND PAPERS

13.1 Housing Transfer Manual 2003/2004 - ODPM

14.0 RECOMMENDATIONS

14.1 Cabinet is requested to agree to the appointment of PricewaterhouseCoopers as lead consultants jointly with Wirral Partnership Homes for the post ballot work leading up to the transfer of the Council's housing stock.

14.2 Cabinet is requested to agree the appointment of PWC under section 5.2 of the Council's contract procedure rules within the Council's Constitution as they are already engaged by the Council and, given their experience and understanding of Wirral's stock transfer project, that it would be in the Council's best interest to appoint them under a single tender exercise.

ALAN STENNARD

DIRECTOR OF HOUSING AND ENVIRONMENTAL PROTECTION

This report was prepared by Brian Simpson, Deputy Director of Housing who can be contacted on 666 4954.

Appendix 1

PWC suggested approach to negotiation of transfer agreement for Wirral MBC

Introduction

Wirral MBC (WMBC) and Wirral Partnership Homes (WPH) have agreed an approach to negotiating the details of the transfer of the Council's housing stock designed to minimise the pain that can sometimes accompany such negotiations.

This approach owes much to the spirit of partnership, and reflects the desire of the Council to create a strong and vibrant RSL capable of delivering its promises and making a wider contribution to regeneration activity in the Borough.

The objective of both parties is therefore to achieve a "Deal in the Round" that will balance the relative financial commitments of both parties and will attribute risk to the party best able to manage it. This needs also to reflect the interests of the regulatory bodies, potential funding partners and the ODPM.

Approach

Subject to each organisation's approval WMBC and WPH will appoint PricewaterhouseCoopers to act as project managers and to act as core advisors to the project. In this capacity PWC will assist in the development of the Deal in the Round and they will be able to give examples of best practice for the key elements of the deal that could otherwise be contentious.

The regulatory requirements will ensure that WPH is able to obtain independent validation of the key elements of the deal, including the business plan, value of the stock, investment requirements as shown in the stock condition survey, and of course through independent legal advice on the key risk areas.

The Council will have access to the PWC core advisory team, and they will ensure that a separate team is created, to ensure that the advice it receives is robust. PWC would recognise that there are likely to be areas where the Council will require independent validation of key elements of the deal. This is likely to include:

- The valuation of the stock
- The valuation of other assets to be transferred

PWC would therefore propose that the Council will seek validation of these key elements from independent advisors who are expert in these matters, similar to the Business Plan validation exercise undertaken on behalf of WPH.

Arbitration

Most of the elements likely to be included in the "Deal in the Round" are usually agreed through a process of negotiation, and PWC would expect this to be the case here. In the event of contentious issues arising, it may be appropriate to refer it to parties not involved in the negotiations for resolution.

Both parties would agree to defer to an independent arbitration by a suitable qualified professional body. The identity of the arbitrator would depend on the area of expertise

required. For example on business planning issues it would be a financial consultant or for stock condition matters a chartered surveying practitioner.

The Community Housing Task Force (from the Office of the Deputy Prime Minister) has also been known to act as a facilitator in such circumstances.

PWC would expect these mechanisms to be adequate to resolve any of the potentially contentious matters arising in this transfer. PWC will draft an arbitration procedure on this basis for agreement and acceptance by the Council and Wirral Partnership Homes.