Dwellingtonia
Provincial Council

File No. : ***AC106/05***

Held By : ***Principal Accountant (Projects)***

Index

DWEllingtonia Provincial Council

CABINET MINUTES – 3 JANUARY 2001

Agenda Item 3 Housing stock transfer and regeneration programme

The Director of Resources presented his report on the above covering the projected financial impact of the housing stock transfer and the consequent regeneration programme planned for the period 2001/02 to 2006/07. The content covered :

- Capital flows and interest;
- Revenue (General Fund) costs and benefits.

Members were asked to consider the following.

Capital flows and interest

1. Annex I to the report (attached) sets out details of the projected capital flows and consequential investment interest accruing from the housing stock transfer.
2. This projection was based on the housing stock transfer to High Matt Housing (HMH) proceeding on 1 April 2001 as planned.
3. Negotiations were still continuing with HMH as to the final sale price. The figure of £190 million represented the expected minimum.
4. It had been agreed with HMH that the Council's Housing Fund balance (expected to total £4.75 million) would be given to HMH as at the transfer date. In return, HMH would take over responsibility for collecting all rent arrears.
5. The National Levy had been included at the rate of 10% of sale proceeds (net of relevant expenses). Under the terms of the Social Housing Act, the Minister could set the rate of this levy at any point between 7.5% and 12.5% and the actual rate had not yet been determined.
6. The Council would also receive from HMH 50% of the value of dwelling sales to tenants during the five years after transfer (the total estimated value of this 50% share over the five years was £10 million).
7. The proposed regeneration programme was currently being drawn up, taking account of the Council's agreed priorities. The outlay from the housing transfer capital receipts shown totalled £60 million over the period 2001/02 to 2005/06. It was hoped that this figure would be increased by other external funding.

8. An interest rate of 5.25% had been used to calculate investment interest on the basis of advice received from Segment Financial (Treasury Management Consultants).

[**continued**]

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Revenue (General Fund) costs and benefits

1. Many figures were still awaited or provisional, but, on the basis of the assumptions made, it was anticipated that there would be a net benefit to the General Fund over the period 2001/02 to 2006/07 and a net sustainable annual benefit from 2007/08 onwards. The assumptions were a s follows.

2. Costs

- After the housing stock transfer, the General Fund would have to bear a number of costs previously charged to the Housing Fund or lose income previously received from the Housing Fund. These are :-
  - Interest and debt repayment on housing loans, where the consolidated interest rate is 8.1%;
  - The running costs of various amenity facilities, such as play areas, provided to serve social housing schemes;
  - Lost recharges to the Housing Fund for administrative services (finance, personnel, property, IT, etc.).
- Post transfer, the Council would also become responsible for paying Rent Benefit to HMH tenants on lower incomes. Such payments would attract a 90% Government grant, but the net cost would be a charge to the General Fund.
- In 2001/02 only, the following allowances had been made :
  - £500,000 for redundancy costs arising from the transfer;
  - £3,250,000 for pension liabilities in respect of transferring and redundant staff.
- Provisional figures had also been included for the expected net running costs arising from the proposed regeneration programme.

3. Benefits

- Interest on net capital receipts would be as set out in Annex 1.
- Ongoing reductions in central administrative staffing and operational costs would produce a total saving of £1,500,000 (at 2001/02 pay and price levels). This would be partly achieved in 2001/02 (£950,000) and fully in 2002/03. It was noted that these savings were about £300,000 less than the lost income from administration recharges, mainly as a result of both the loss of economies of scale and the need to provide for administration of the additional Rent Benefits.
- The housing stock transfer and regeneration programme should result in an additional National Support Grant (NSG) entitlement for the Council,

providing the NSG formula remained unchanged. It was noted, however, that the additional NSG entitlement would be phased in and only reach its full extent in 2006/07.

4. In projecting relevant figures, inflation (pay and prices) had been assumed to be 3% per annum for 2002/03 andfuture years.

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5. The overall effect on the General Fund revenue account of these costs and benefits arising from the stock transfer and the regeneration programme was projected as follows. :

	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000	2005/06 £000	2006/07 £000
Surplus (Deficit)	(2,111)	1,330	610	270	(60)	390

Conclusions

On the basis of this projection :-

- A net revenue benefit to General Fund of £429,000 should be achievable from the housing stock transfer over the period 2001/02 to 2006/07 as a whole.
- There should be a sustainable annual revenue benefit from 2007/08 onwards.
- These results were projected after allowing for a net capital outlay, over the period 2001/02 to 2002/03, of £60 million on the regeneration programme from the housing stock transfer capital receipts, and for the associated running costs.

Resolution

We received the confidential report of the Director of Resources on behalf of our Management Team outlining the current state of negotiations with HMH, together with financial projections.

We noted that the rate of the National Levy that would apply to our stock transfer had not yet been determined, but that a decision was expected by the end of February.

We agreed unanimously to instruct our officers to proceed to finalise the housing stock transfer subject to the capital receipt from HMH being no less than the figure shown in the Director’s report (£190 million).

We further agreed that the regeneration programme should be aimed at priority problems throughout Dwellingtonia and that the net capital cost to the Council of this must not exceed £60 million.

We further agreed that, should the housing stock transfer proceed, all the provisional figures discussed would need to become firmer and that a more detailed report should be prepared for a future meeting covering the costs and benefits projected to arise from the housing stock transfer and the regeneration programme. We anticipated that this exercise would result in :-

1. A net benefit to the General Fund Revenue Account over the period up to 31 March 2007, taken as a whole.
2. A continuing annual benefit to General Fund Revenue Account should be anticipated for the financial years from 2007/08 onwards.

Dwellingtonia Provincial Council

CABINET MINUTES – 3 JANUARY 2001

Agenda Item 3 Housing stock transfer and regeneration programme

Annex 1

	2001/02 £000	**2002/03 £000**	**2003/04 £000**	**2004/05 £000**	**2005/06 £000**	**2006/07 £000**
Stock transfer 1/4/01	190,000					
Less transfer expenses	-15,000					
Less National levy	-17,500					
Opening Capital 1 April	**157,500**	**149,500**	**137,500**	**125,500**	**113,500**	**107,500**
Changes in-year						
Tenants' purchases	2,000	2,000	2,000	2,000	2,000	
Regeneration programme	-10,000	-14,000	-14,000	-14,000	-8,000	
Closing Capital 31 March	**149,500**	**137,500**	**125,500**	**113,500**	**107,500**	**107,500**
Net Capital mid-year	**153,500**	**143,500**	**131,500**	**119,500**	**110,500**	**107,500**
Assumed interest rate (%)	5.25	5.25	5.25	5.25	5.25	5.25

	2001/02 £000	**2002/03 £000**	**2003/04 £000**	**2004/05 £000**	**2005/06 £000**	**2006/07 £000**

Investment income	**8,059**	**7,534**	**6,904**	**6,274**	**5,801**	**5,644**

COUNCILLOR H. G. V. TRUCKER

The Road House
Artic Avenue
Bungalore
BU17 9QT

Robin Jay
Director of Resources
Dwellingtonia Provincial Council
Council House
Constitution Square
Bungalore
BU1 1HQ
11 January 2001

Dear Mr Jay

Housing stock transfer

I am writing to record my compliments on the polished performance you gave in presenting the Cabinet's housing stock transfer and regeneration proposals to the Scrutiny Committee at its meeting last night. The fact is, however, that no amount of polish can disguise the fact that these proposals are built upon extremely weak foundations.

You have, no doubt, done a good job in getting the figures to work as the Cabinet wants them. However, we all know that there are massive unknowns such as the course of future interest rates and the take up rate for Rent Benefit. The NSG formula could change next week, let *alone in five years time. Again who can believe that the proposed regeneration programme will be delivered either to time or to cost, given the notorious record of this authority?*

Finally, and most serious of all, you yourself noted that there is a gap between the extent of the administration recharges that we will no longer be able to make to the Housing Fund and the actual savings in central administration costs. This alarming gap represents nothing more than slack management, no doubt acceptable to the current political leadership, but certainly not to me. If I were to run my own business in this sloppy way, my trucks would very soon be driving down the road to bankruptcy.

I can assure you that, when my Group takes over the Cabinet (and that time is not far off), we shall want to review all of these figures with great care. Realism and efficiency will be the watchwords for the future, and we shall expect our management team to deliver the goods.

Yours sincerely

Horace Trucker

Councillor Horace Trucker
Leader of the Opposition

Floreat

FEDERAL REPUBLIC OF HUTLAND

Ministry of Local Affairs

Permanent Secretary –Jennifer Wren

The Housing Transfer Levy Order (Dwellingtonia), 2001
Order no. 2001/066

The Minister for Local Affairs has today laid before the Federal Assembly the Housing Transfer Levy Order (Dwellingtonia), 2001, pursuant to the powers conferred on him under the terms of Section 187 (b) of the Social Housing Act, 1998.

The effect of this Order is to require the Dwellingtonia Provincial Council to pay over to the National Treasury a levy, being a percentage of the proceeds of the forthcoming sale of its housing stock to the High Matt Housing Ltd.. This levy reflects the extent that past subsidies from the national government have assisted the Council in providing the housing stock.

Following due consideration of all relevant facts and representations made to him, the Minister has determined that the levy payable by the Council shall be set at the rate of **9 per cent** of the sale proceeds, after deduction of the eligible costs of sale (transfer costs).

The Council is to make the relevant levy payments to the National Treasury immediately upon receipt of the sale proceeds or, if the receipts are phased, upon receipt each tranche of the sale proceeds. Any amounts receivable by the Council arising from the exercise by tenants of their purchase rights following the transfer shall be exempted from the levy obligation.

Dated this 20th day of February 2001.

Jennifer Wren
Permanent Secretary
Ministry of Local Affairs

DWELLINGTONIA PROVINCIAL COUNCIL

internal e-mail

From : Robin Jay (Director of Resources)
To : Barnie Owl (Head of Finance)
Date : 20 March 2001 - 10.36 am
Subject : Housing stock transfer

As expected, the negotiations with HMH went right through to the deadline, and we finally reached agreement at 11.15 pm last night.

The good news is that we have obtained a further increase in sale price (now up to £194 million), because of the more favourable projection of future repair costs.

However, we did have to concede the point that payment of this amount in one lump sum would place HMH at risk of breaching its banking covenants. We agreed, therefore, that, in order to ease their cash flow, the amount receivable on 1 April 2001 will be £185 million, with the remaining £9 million becoming due on 1 October 2002. The total transfer expenses will remain at £15 million, all payable by the Council on 1 April 2001.

The final breakdown of the sale price was:

	Number of dwellings	**Average Price**	**Total**
	No.	£	£m.
Bungalore	8,552	14,090	120.5
Pentowse	6,419	11,450	73.5
	14,971		**194.0**

The level of income from tenants' purchases is uncertain and will ultimately depend upon the number of houses sold, but £2 million a year for each of the first 5 years, representing the authority's 50% share, remains a reasonable assumption at this stage.

Given the higher sale price and the good news in relation to the National Levy, the financial condition for the housing stock transfer set by the Cabinet on 3 January have now clearly been met.

Robin Jay
Director of Resources

Dwellingtonia Provincial Council

MANAGEMENT TEAM MINUTES – 27 MARCH 2001

Agenda Item 5Housing stock transfer

The Director of Resources reported that the only significant changes to the financial projection presented to Cabinet on 3 January had both been favourable, namely the increase in sale price, and the determination of the rate of the National Levy at a lower rate than anticipated. He further advised that arrangements were in hand to invest the net sale proceeds immediately upon their receipt.

The Chief Executive reported confirmation from the Head of Central Serices that all documentation should be completed by 30 March, and that the formal approvals necessary from the Ministry of Local Affairs would also be received on that day.

It was agreed to advise the Mayor that the stock transfer could safely proceed on 1 April.

The Chief Executive advised that the Cabinet remained concerned that the savings in administrative costs following the housing stock transfer were likely to be much less than the loss of recharge income to General Fund. He felt that managers generally had underestimated the future reductions in workload and had consequently taken too cautious an approach to potential savings. He had therefore instructed his Head of Best Value to lead an exercise to identify further administrative savings of £200,000 per annum from 2002/03 onwards.

Finance and personnel representatives were to be nominated to work with the Head of Best Value in this exercise.

Agenda Item 6Capital Management Group

The Chief Executive referred to the importance of the regeneration programme and reported his decision, in consultation with the Director of Resources, to establish a Capital Management Group.

Barnie/Peregrine,

Extract from minutes, as promised.

Robin 30/03/2001

meMORANdum

to : **Sandy Piper, Principal Accountant (Projects)**
from : **Peregrine du Cros, Chief Accountant**
date : **3 April 2001**

Priority assignments

As agreed, I summarise below the main points of our recent conversation.

- You will need to monitor closely all developments, which might have a bearing on the financial implications of the housing stock transfer and the associated regeneration programme. The Cabinet gave its approval to proceed subject to a minimum capital receipt of £190 million and, as you know, this was more than met. Attention now needs to be focused on the resultant revenue impact on the General Fund, a subject upon which Cabinet also expressed its expectations. It has now been agreed that a further report will be prepared for the Cabinet meeting on 12 July 2001 and you will be required to draft this. I have asked the Director of Resources to set out his detailed requirements for you.
- You will be the Finance representative on the newly formed Capital Management Group (CMG). This group is to be chaired by the Head of Regeneration and will include representatives from all of the main services and technical disciplines concerned with the regeneration programme. As you may know, there have been some problems in the past with the approval procedures for capital schemes and a number of agreed projects have not really been in line with the Council's corporate priorities. There has also been a lack of clear accountability for delivery, and reporting procedures have been non-existent. The CMG will no doubt need to draw heavily on your expertise in this area to help ensure that the programme is properly managed and delivered.
- The Director will also need your assistance in ensuring that the revenue savings associated with the housing stock transfer are actually achieved, particularly the additional savings target recently approved by Management Team. This will require your involvement in assessing re-structuring exercises in a number of divisions. There are still a number of difficult issues to resolve, including the future staffing requirements of our own Paymaster Division.

There may also be other matters from time to time, which will require your urgent attention.

Finally, I set out below the additional NSG figures (estimated outturn levels) used in the revenue projections given to Cabinet members in January.

	2001/02 £000	**2002/03 £000**	**2003/04 £000**	**2004/05 £000**	**2005/06 £000**	**2006/07 £000**
Additional NSG	0	0	100	490	1,070	1,890

These reflect the likely impact of the housing stock transfer and the regeneration programme and remain the best estimates available. After 2006/07, the figure is only likely to increase by the rate of inflation.

Peregrine du Cros

Chief Accountant

DWELLINGTONIA PROVINCIAL COUNCIL

internal e-mail

From	**:**	Kitty Wake (Head of Best Value)
To	**:**	Martin Swallow (Chief Executive)
Cc	**:**	Robin Jay (Director of Resources)
Date	**:**	18 April 2001 11.42 am
Subject	**:**	Administration Savings

My group has now completed its initial reassessment of administrative savings as instructed by Management Team. The following additional staff savings are seen to be achievable (2001/02 pay levels) :

Division	**Number of posts to be saved**			**Additional Annual Saving**
	Original	**Additional**	**Total**	**£000**
Central Secretariat	4	1	5	18
Finance Services	14	2	16	42
Internal Audit	2	-	2	-
IT Services	5	1	6	32
Personnel Services	3	2	5	43
Property Services	27	1	28	23
TOTAL	**55**	**7**	**62**	**158**

The additional savings are full year figures from 2002/03 onwards.

You are asked to note the following points:

- The saving of two extra posts in Finance is dependent upon decentralised (devolved) procedures being extended for the creditor payments function.
- The saving of one further post only is proposed for Property Services, given the pressure on that Division to keep the regeneration programme on target.

In addition to the staff savings, the Principal Accountant (Projects) has advised that, as a result of the housing stock transfer, a reduction in external audit costs of £35,000 per annum should be achievable from 2002/03 onwards. This was not previously taken into account. The total additional savings put forward, therefore, amount to £193,000 annually against the Management Team's £200,000 target. I have discussed this with the Chief Executive and he has agreed that the lower figure of £193,000 should be used for the purposes of your exercise. All of the above figures are quoted at current year (2001/02) price and pay levels.

My group has had to bear in mind the very strong pressures on the authority to ensure that all aspects of its administration and operations meet good practice standards. While we are sure that there are further efficiency gains to be made, these will take time to achieve. Our conclusion is that the above proposals represent the most that can be saved in the short term without compromising standards of performance.

Kitty Wake
Head of Best Value

MEMORANdum

to : **Sandy Piper, Principal Accountant (Projects)**
from : **Ray Venn, Head of Regeneration**
date : **20 April 2001**

Capital Management Group (CMG)

I would like to welcome you to the newly established Capital Management Group (CMG). As you know, our wider brief is to oversee the authority's whole capital programming and planning function. However, our initial task can be simply stated – to ensure that the capital resources unlocked by the housing stock transfer are channelled into an effective regeneration programme aimed at addressing priority problems throughout Dwellingtonia. Further to our telephone conversation, the first meeting of CMG will take place on 25 April 2001.

One of the problems we have to overcome is the tendency of some departments to put forward ill-defined and unrealistic projects for inclusion in our capital programmes. Departments often underestimate the complexities involved in the pre-contract stages. Too often in the past, schemes have been brought forward with far too little thought as to what they will achieve, how they will operate and what revenue resources will be required in terms of ongoing running costs. Such shortcomings affect the authority's reputation with outside funding bodies and, perhaps not surprisingly, the level of resources generated from external funding bodies for capital schemes has in the past been minimal. Part of our role will be to address these and other issues and, at the same time, to ensure that political aspirations do not override practical realities.

On the external funding issue, my instructions from the Chief Executive are that we must gain the maximum possible leverage from the housing transfer money. Significant funding should be available both from the Hutland Regeneration Commission (Hut-Regen), and the European Development Fund. However, these will be dependent upon being able to demonstrate our determination and ability to deliver capital schemes on time and within budget.

To assist CMG in the discussion of priorities for the regeneration programme, I also attach for your information the results of a special exercise undertaken for the Council by Clore, Beek and Tallon Statistical Services. This was aimed at ascertaining the positions of the authority's two main centres, Bungalore and Pentowse, against the average social and economic performance of Hutland as a whole.

Ray Venn

Head of Regeneration

Chief Executive
Dwellingtonia Provincial Council
Council House
Constitution Square
Bungalore
BU1 1HQ
11 April 2001

Dear Mr Swallow,

Hutland Statistical Survey - Social & Economic Digest

As requested, I set out below a summary of the results of the above survey.

	Hutland Average	Bungalore	Pentowse
Population		108,200	71,900
Number of Households		32,857	23,967
Number of Registered unemployed		2,984	2,743
Unemployment Rate (% of economically active)	4.7	3.9	5.9
Index of 1996 GDP per head (Hutland average = 100)	100.0	106.4	95.0
Index of 2001 GDP per head (Hutland average = 100)	100.0	104.4	95.2
Index of 1996 social deprivation (Hutland average = 100)	100.0	92.8	110.6
Index of 2001 social deprivation (Hutland average = 100)	100.0	95.9	107.5
Households receiving income support (Number)		6,900	5,060
Wards exhibiting severe deprivation (Number/Out of Total)		5/26	6/25

The detailed report will follow in due course.

Yours sincerely

Goldie Eagle

Goldie Eagle
Director

DWELLINGTONIA PROVINCIAL COUNCIL

internal e-mail

From	**:**	Merlin Rook (Head of Personnel)
To	**:**	Robin Jay (Director of Resources)
Date	**:**	08 May 2001 17.26
Subject	**:**	Housing stock transfer – personnel aspects

Staff transfers and savings

The transfer of the housing staff to HMH has been completed apart from a few specific issues concerning individual staff contracts. These are unlikely to have any significant financial implications. The transfer of some support service staff to HMH will be phased during 2001/02, but is likely to take longer than previously thought. In addition, Management Team's decision to seek additional savings of £200,000 per annum (on top of the agreed £1.5 million) will result in delays in agreeing the new establishments and hence delays in staff redeployment or redundancy decisions.

I have discussed these issues with your Principal Accountant (Projects), and we are agreed that the administration costs savings figure for 2001/02 ought now to be reduced from £950,000 to £780,000. The new figure takes account of any 2001/02 salary savings that might result from the Management Team exercise.

Pension and redundancy costs.

Pension and redundancy costs (2001/02 only) chargeable to the General Fund have been revised as follows.

1. The redundancy costs resulting from the savings exercise are now expected to cost £65,000 more than the £500,000 previously estimated.
2. In the light of more specific information about the individuals affected, the actuary has now calculated a figure of £3,070,000 to cover pension liabilities, compared with his previous estimate of £3,250,000.

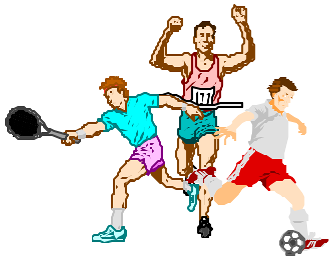
Paymaster Division

Finally, the Management Team exercise suggests that a further two posts should be deleted from the overall creditor payments function. However, I am experiencing difficulties in making progress on these establishment changes with your Paymaster. He appears to be adamant that no further posts can be saved in relation to his creditor payments function. He tells me that he is sure that you will support him on this, as otherwise you will be at risk of neglecting your own statutory duty to ensure that the Council has secure payment arrangements.

Whilst I am aware of his excellent record in keeping duplicate payments to a minimum and the need to maintain this, this sort of approach hardly helps the corporate cause. If this type of response is seen to succeed, I am sure that other managers will find equally compelling reasons to justify their own staff numbers.

Merlin Rook

Head of Personnel



INGLENOOK

COMMUNITY SPORTS ASSOCIATION

Honorary Chairman ~ Albert Ross

Martin Swallow
Chief Executive
Dwellingtonia Provincial Council
Council House
Constitution Square
Bungalore BU1 1HQ

16 May 2001

Dear Mr Swallow

Inglenook Leisure Centre Project

I have been instructed by my Committee to tell you in the strongest possible terms how sick and tired we are of the constant difficulties and delays being experienced with the above mentioned project.

Three years ago we were overjoyed when the recreation needs of the Inglenook community finally received recognition. We were enthusiastic about taking on the management of the new centre and more than willing to contribute the £80,000 we had built up over the years towards the capital costs.

Since then, there has been one problem after another. Earlier assurances of co-operation were ignored and we were only consulted after initial designs had already been prepared. Then we found that these designs were very different from what we had been led to expect, and totally unsuitable for our needs. It took months of committee meetings and working parties to get that put right and, throughout, we have had to put up with interference from Mrs Boater, our ward councillor, who seems to think that, because we are in her constituency, she has a right to interfere whenever she likes.

The result is that the Centre is now months overdue and we have experienced the embarrassment of having to advise the Dwellingtonia Ladies' Badminton League that we will not now be able to host their gala centenary celebrations as promised. We have also been told that the Centre costs are well above budget, partly because your officers omitted to make capital provision for the basic furniture and equipment costs. We want assurances that our £80,000 will still be used to purchase the agreed list of special equipment for the Centre, and not reallocated to pay for overspending caused by the authority's incompetence.

Please, Mr Swallow, appoint one of your senior people to investigate what has gone wrong with this project and give us the confidence we need to take on the management role once the Centre is finally finished.

Yours sincerely

Albert Ross

Chairman

From	**:**	Robin Jay (Director of Resources)
To	**:**	Peregrine du Cros (Chief Accountant)
Cc	**:**	Sandy Piper (Principal Accountant (Projects))
Date	**:**	1 June 2001 09.36
Subject	**:**	Housing stock transfer – report to Cabinet

As requested, here are my requirements for the report to the Cabinet meeting on 12 July 2001. Firstly the Cabinet will want to know that the financial conditions set for the housing stock transfer have been satisfied. Secondly, you will need to undertake a complete reappraisal of the projections of General Fund revenue costs and benefits resulting from the housing stock transfer and the proposed regeneration programme. Cabinet will need assurance that the expectations indicated at its 3 January meeting are indeed likely to be met. The report should, therefore, include the following.

- A brief introduction reminding members of the decisions made on 3 January.
- A summary of the changes that have become apparent since 3 January on net capital cash flows, revision of the table previously submitted and recalculation of the investment income for the years 2001/02 to 2006/07.
- An explanation of the outcome of the savings exercise agreed by Management Team at its meeting on 27 March. There appears to be a feeling within the Cabinet that this exercise represented an over-reaction on officers' part to criticism from the opposition parties. The Cabinet will need to be convinced that these savings are genuinely required and achievable.
- Calculation of the overall likely General Fund revenue consequences (costs and savings) of the housing stock transfer and the proposed regeneration programme for the years 2001/02 to 2006/07 (continue to assume 3% inflation).
- A critical appraisal of the results in the light of the criteria set by the Cabinet.
- Conclusions together with a careful and detailed explanation for members of the specific uncertainties attaching to these forecasts. This is essential, bearing in mind that there is still strong pressure from opposition members who feel that the housing stock transfer process was ill advised and rushed.
- Finally, the Mayor has advised me that there is a view within the ruling group that we should proceed with premature repayment of our housing debt. Apparently some members have picked up the simple point that we are paying interest of 8.10% on this debt, but only receiving 5.25% on our investment. The report will therefore need not only to set out the mechanics of premature redemption but also to explain the premium which will no doubt be chargeable if this line is pursued.

I look forward to receiving your draft report by 28 June 2001.

Robin Jay
Director of Resou

Ms M Pye
Directorate of Resources
Dwellingtonia Provincial Council
Council House
Constitution Square
Bungalore BU1 1HQ

13 June 2001

Dear Maggie,

Interest rates and premium payments

It was good to meet you again at our seminar last week. I was pleased to hear that your housing stock transfer exercise had been completed so expeditiously.

As requested, I set out below our projection of forthcoming interest rates applicable to your investment of the stock transfer proceeds. This projection is based on forecasts from a wide range of leading analysts and takes account of the fact that the Council appointed highly rated external investment managers from 1 April 2001.

Rates are falling at present, but we believe that an average rate of 5.50% should still be achievable in 2001/02. Longer term predictions must always contain a high degree of uncertainty, but our forecast subject to that qualification is that your investment should achieve an average rate of 5.00% in 2002/03 and 4.75% thereafter. The rates quoted are net of fees.

As agreed, we have also updated our calculation of the premium that your Council would be required to pay if it were to decide to make early repayment of its outstanding housing debt.

Continued

SEGMENT FINANCIAL

We understand that

- the Hutland Development Bank (HDB) advanced loans at many different times to pay for housing construction, and that, more recently, the total amount of debt was consolidated into a single loan;
- this loan is currently being repaid by equal annual instalments of principal on 31 March each year with forty years still to run at 1 April 2001
- the amount of principal outstanding at 1 April 2001 was £35,600,000 and
- the annual interest rate is fixed at 8.10%.

As you know, the HDB publishes a formula, being the basis upon which the premiums or discounts applicable to early repayment are calculated. We have applied this formula to your own situation, and can advise you that, using the reference rate of 5.5% on long term Hutland National Bonds, a premium of £17,020,000 would become payable if your Council repaid its loan prematurely as of today.

I hope that this information will help you to decide on your advice to your Council. Please let me know if we can be of any further assistance.

Yours sincerely

Montagu Sharrier

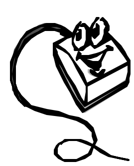
Director (Public Sector)

<u>Note for Principal Accountant (Projects)</u>

I have carried out a DCF exercise, using the discount rate determined by the Head of Finance, to see whether it would be worthwhile in purely financial terms for us to go for early repayment, in view of the premium payable of £17,020,000. The result of the exercise was that premature repayment showed an NPV deficit of £2,200,000, when compared with continuing with the normal repayment profile.

My conclusion, therefore, is that premature repayment is unlikely to be worthwhile unless there is a major upward shift in interest rates.

Maggie Pye
Principal Accountant (Technical)



DWELLINGTONIA PROVINCIAL COUNCIL

internal e-mail

From	**:**	Ray Venn (Head of Regeneration)
To	**:**	Management Team
Date	**:**	14 June 2001 12.27
Subject	**:**	Regeneration Programme

Regeneration programme

At last, I am able to let you have a summary of the draft Regeneration Programme (copy attached). Subject to your approval, this programme will be presented to Cabinet at its meeting on 12 July. I would like to record my thanks to fellow members of the Capital Management Group for the effort they have all made to ensure that we have a well researched and costed programme to put to members.

The Programme as drafted involves total capital expenditure, including professional fees, of £115,880,000 (at estimated outturn prices). Of this, £59,000,000 is financed from the Council's own resources (i.e. housing stock transfer proceeds).

Using this as core funding, we expect to lever in further sums of £30,530,000 from the Hutland Regeneration Commission (Hut-Regen), and £26,350,000 fom the European Development Fund (EDF).

It should be noted, however, that both of these bodies insist that all of the projects they support must be delivered within approved time scales. Also, if there are any cost overruns, we should not expect that these external bodies would necessarily be prepared to increase their contributions.

The programme as drafted concentrates on the following priority areas:

- Comprehensive improvement of the neighbourhoods of Gable End (Bungalore) and Homestead (Pentowse), which are the two most deprived areas in Dwellingtonia as a whole.
- The Pentowse Phoenix scheme to provide Pentowse with a flagship business park of the highest standard, giving both the Council and other agencies much greater scope to attract inward investment to Pentowse.
- Road and rail improvements in the Bungalore – Pentowse corridor. While these are seen as province wide improvements, in practice, more benefit is likely to accrue to Pentowse, given its poor communications with the rest of the country. Commuting from Pentowse to Bungalore is likely to become much more prevalent, once these improvements have been completed, leading to a much better integrated local economy.
- A new Management Centre and Business Park for Bungalore. These are seen to be essential in view of the medium term economic challenge facing Bungalore, namely the expected loss of many lower level jobs in financial services. Bungalore will need both attractive locations for business and a better skilled workforce if it is to compete effectively in a very tough marketplace.
- Community security initiatives for both Bungalore and Pentowse.

Whilst detailed planning of the schemes and hence their phasing is still at a very early stage, the Regeneration Programme is expected to be completed by 31 March 2006, with preliminary forecasts of net capital payments and annual running costs as follows (all at estimated outturn prices) :

	Capital Payments Previous Estimate £000	Capital Payments Current Projection £000	Annual Running Costs Current Projection £000
2001/02	10,000	5,000	100
2002/03	14,000	8,500	350
2003/04	14,000	13,500	550
2004/05	14,000	20,500	830
2005/06	8,000	11,500	1,370
	60,000	**59,000**	

The net annual running costs of the programme in the first full year (2006/07) are expected to be £1,640,000 (again at estimated outturn prices).

The full year running costs are about 10% greater than allowed for in the housing stock transfer projection back in January. However the build up of costs year by year is somewhat slower. One risk factor will be the speed of letting the two business parks. These are currently predicted to be fully let and generating a substantial revenue surplus by 2006/07.

I look forward to discussing these issues with you at the next Management Team meeting.

Ray Venn
Head of Regeneration

Costs	Capital Cost £000	Running Costs * £000
Bungalore Schemes		
Busway	6,600	135
Management Centre	6,450	370
Community safety initiatives	5,750	255
Gable end - dwelling renewal grants	9,000	-
Gable end - environmental improvements	3,500	115
Colonnade Business Park	6,060	(215)
	37,360	660
Pentowse Schemes		
Homestead - dwelling renewal grants	6,250	-
Homestead - environmental improvements	3,250	115
Homestead - mining museum	2,400	280
Phoenix – road improvements	8,400	160
Phoenix land reclamation	8,160	95
Phoenix Enterprise Park	5,660	(125)
Phoenix-airport terminal contribution	8,050	-
Town centre - CCTV & pedestrianisation	6,090	315
	48,260	840
Province wide schemes		
Bungalore - Pentowse railway upgrade	6,100	-
High Matt expressway	24,160	140
	30,260	140
	115,880	**1,640**

*** NOTE**
First full year

Capital Financing	Sale Proceeds £000	Hut-Regen £000	EDF Grant £000	Total £000
Bungalore Schemes				
Busway	6,600	-	-	6,600
Management Centre	3,900	-	2,550	6,450
Community safety initiatives	2,300	3,450	-	5,750
Gable end - dwelling renewal grants	3,600	5,400	-	9,000
Gable end - environmental improvements	1,400	2,100	-	3,500
Colonnade Business Park	3,660	-	2,400	6,060
	21,460	10,950	4,950	37,360
Pentowse Schemes				
Homestead - dwelling renewal grants	2,500	3,750	-	6,250
Homestead - environmental improvements	1,300	1,950	-	3,250
Homestead - mining museum	1,450	-	950	2,400
Phoenix - road improvements	5,100	-	3,300	8,400
Phoenix land reclamation	4,950	-	3,210	8,160
Phoenix Enterprise Park	3,400	-	2,260	5,660
Phoenix-airport terminal contribution	4,850	-	3,200	8,050
Town centre - CCTV & pedestrianisation	2,990	1,800	1,300	6,090
	26,540	7,500	14,220	48,260
Province wide schemes				
Bungalore-Pentowse railway upgrade	3,700	-	2,400	6,100
High Matt expressway	7,300	12,080	4,780	24,160
	11,000	12,080	7,180	30,260
	59,000	**30,530**	**26,350**	**115,880**

MEMORANdum

to : **Barnie Owl, Head of Finance**
from : **Jack Dore, Paymaster**
date : **15 June 2001**

Paymaster Division – Staffing Resources

I regret the need to write, but I really feel that my Division is being asked to achieve the impossible in relation to the payments function. As a result of the housing stock transfer, I have agreed to the loss of eight full time posts in my Division in total, including four dealing with the payments function. This is entirely consistent with the total reduction in payments workload arising from housing transfer – from 96,000 to 72,000 payments per annum.

As you know, we have an outstanding record of achievement in the payments field. In the 2000/01 sampling exercise of Hutland authorities carried out by the Local Audit Commision :

- DPC was the best performing authority in avoiding duplicate payments;
- DPC has very low costs, only 12p per payment more than Casablanca, which has for some reason been picked out as the beacon authority for payments.

As the statistics in the table below demonstrate, this same exercise also showed that DPC's performance in paying invoices quickly (average 25.87 days) was marginally the best and significantly better than the average for all authorities in Hutland (26.18 days).

Authority	**Invoices Paid**	**Average Days**
	No.	**No.**
Casablanca	174,000	25.96
Dwellingtonia	96,000	25.87
Hovelton	104,000	26.18
Maysonett	54,000	26.46
Tabernacle	72,000	26.90
All Authorities	**500,000**	**26.18**

It came as a great shock and disappointment, therefore, to be told by the Head of Best Value that we might have to cut another two posts. This can only mean a worsening of DPC's excellent payment performance, greater risk of error, including many more duplicate payments and a further lowering of morale amongst my overworked, but excellent staff.

If further savings have to be made, then it is the costs of decentralised payments personnel that ought to be looked at, not my own staff. It is a sad fact that the performance of the decentralised units has never come up to standard, because their managers are just not interested. Consequently, I have had to bar them from using some aspects of the Disburse IT system, and to insist that high levels of pre-payment checks are carried out by my own staff.

I should be grateful to be assured of your full support in my mission to ensure that standards of financial control are fully maintained.

Jack Dore
Paymaster

From	**:**	Ray Venn (Head of Regeneration)
To	**:**	Sandy Piper (Principal Accountant (Projects))
Date	**:**	18 June 2001 14.16
Subject	**:**	Capital Management Group (CMG) - Regeneration Programme

As you may know, the Management Team has approved the Draft Regeneration Programme. This will now go forward to Cabinet for final endorsement. This is a very significant step in establishing the credibility of the CMG. However, I am very conscious that this initial stage of the work has, of necessity, been hurried, and that there was a lack of any formal guidance available to the Group. As you may be aware, some of the potential pitfalls in project management have been clearly highlighted recently by the problems on the Inglenook scheme.

Unfortunately, my impression is that not all members of CMG fully appreciate the Group's purpose and I have even received some queries from Members about our role. As your next contribution to CMG's work, therefore, I would like you to draw up a paper, initially just for the Group, which

- identifies and explains the weaknesses apparent in the current systems and procedures for the initiation, management and control of capital projects;
- explains the key arrangements and procedures required for the overall management of the capital programme;
- puts forward a draft set of outline procedure guidelines for the management of specific capital projects.

On the management of the overall capital programme, you should refer to the composition and role of CMG and detail its responsibilities and procedures as regards programme formulation, required information flows, programme monitoring, the treatment of variances and reporting.

On the management of specific projects or schemes, your guidelines should address all the shortcomings identified and detail procedures that cover a project from initial concept through to its completion and opening. Your notes will therefore need to cover overall accountability for delivery, pre-contract considerations and procedures, internal budgeting, external finance, timing and stage planning, project monitoring and control, completion and the ultimate operation of the new facilities.

The early progress made by CMG has been good, but it is still only at "first base". CMG is now responsible for co-ordinating the delivery of the programme and a paper from you covering the above areas will help the Group in going forward successfully, as well as providing a sound basis for the determination of future capital programmes.

Please send me your first draft of this paper so that we can discuss its contents prior to issue to the Group.

Ray Venn
Head of Regeneration

Caseload Associates

Housing Consultants

21, Benchmark Close, Yardstick, Pentowse PE4 3XT

Director of Resources 19 June 2001
Dwellingtonia Provincial Council
Council House
Constitution Square
Bungalore BU1 1HQ

Dear Robin,

Rent benefit administration

As the final aspect of our involvement with the housing stock transfer, we have now completed our review of DPC's rent benefit (RB) arrangements. Our full report will follow in about two weeks, but I thought you might like to receive an update on our main findings at this stage.

Generally, the transfer of High Matt Housing tenants onto the RB system has progressed well, much to the credit of your staff. Apart from a handful of especially complex cases, all HMH tenants have been notified of their new RB entitlements and have received their initial payments. This has been achieved without any reduction in standards of service to the tenants of other landlords, except in relation to reviews.

Currently, there are about six thousand RB cases overdue for review, and, if this problem is not tackled quickly, DPC is likely to receive serious criticism from the Government's Social Benefits' Inspectorate at its next visit. In order to overcome the review backlog in the current financial year, additional short term resources in the RB Division will be required at a cost of £40,000 (2001/02 only).

For the longer term (from 1 April 2002 onwards), we recommend that two permanent posts are added to the RB establishment, one each at the junior and intermediate levels. This will cost £38,000 per annum, including all overheads. Additionally, we strongly advise that you upgrade your Airedale document management software so that your RB staff will no longer be dogged by slow response times. This upgrade will cost £15,000 per annum (subject to inflation) in 2002/03 and future years, but will not entail any additional hardware costs.

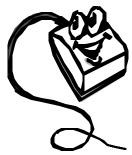
These extra costs, all quoted at current 2001/02 pay and price levels, would still leave DPC reasonably well placed in the league tables for RB administration costs, but would give you a greater margin of assurance that performance targets will be met.

Perhaps we can discuss, once you have had a chance to digest our full report.

Yours sincerely

Bill Finch

Senior Partner



DWELLINGTONIA PROVINCIAL COUNCIL

internal e-mail

From	**:**	Barnie Owl (Head of Finance)
To	**:**	Sandy Piper (Principal Accountant (Projects))
Date	**:**	20 June 2001 09.37
Subject	**:**	Paymaster Division

I have set out below the main points discussed at our meeting yesterday.

I am concerned about the conflicting reports I have been given about the proposed saving of two further posts on the creditor payments function in the Paymaster Division.

The Paymaster, who has given stalwart service to the authority over many years, is always telling me that our creditor payments function provides high standards of service at a reasonable level of cost. I can certainly vouch for our freedom from any significant problems by way of incorrect payments to creditors.

On the other hand, both the Head of Best Value and the Head of Personnel are strongly of the view that these extra savings can and indeed must be made. The Head of Best Value has also told me that, in her opinion, our creditor payments performance leaves a lot to be desired and is significantly worse than that of authorities generally.

I should be grateful, therefore, if you would let me have a briefing note as soon as possible, summarising the available information concerning the costs and performance of our creditor payments operation, and covering the following :

- An analysis of the performance of the DPC creditor payments function against the “Fair Payment Guideline” as well as against comparator authorities, and, in particular, a testing of the Paymaster’s claim that DPC’s performance in paying invoices quickly is significantly better than the average for all authorities in Hutland.
- An evaluation of the evidence as regards salary costs and consideration of the scope for making further savings in the creditor payments function (centralised or devolved).
- An assessment of the financial control and cost issues resulting from the Paymaster’s management of the creditor payments function.
- An evaluation of the management and morale issues apparent within the creditor payments function and notes on how these might be addressed.

I look forward to receiving your notes as soon as possible.

Barnie Owl
Head of Finance

KNIGHT, JARR and SWIFT

ARCHITECTS

Chief Executive *21 June 2001*
Dwellingtonia Provincial Council
Council House
Constitution Square
Bungalore BU1 1HQ

Dear Mr Swallow

Inglenook Leisure Centre

We are disturbed to learn that our role in the above project is apparently subject to criticism and I am writing to set the record straight.

When we took on this project some three years ago, we were told that Timothy Gibbon of your Leisure Services Department would be project manager, but our first meeting with him was far from satisfactory. Very few key dates had been set for the various project stages and those in place left little flexibility to deal with any problems arising. To our further dismay, we discovered that there was no provision in the capital programme for our professional fees and that no prior consultation exercise had been undertaken to determine exactly what kind of facility Inglenook Community Sports Association (ICSA) really needed. Despite this, Mr Gibbon insisted that we must follow the original brief drawn up by Leisure Services and not make any changes asked for by ICSA, as these could not be afforded. Only months later did we find out that the Head of Leisure Services had previously agreed many of the changes being sought by ICSA. Putting matters right involved many meetings and significant changes to design, causing delay and extra cost.

At that point, Mr Gibbon disappeared completely, responding neither to telephone calls nor to letters. He was never replaced, and we were left to sort out matters as best we could. The Centre will now be completed by 30 June, five months late and over budgeted cost by £125,000. The date of opening is another matter, as Leisure Services has yet to start recruiting staff and there has been no promotion of the new facilities to date. These costs and delays are all attributable to the total failure of Leisure Services to act effectively in its client role, and neither we, nor the contractor, should be held responsible.

We are very concerned that we may find ourselves used as the scapegoat to excuse the Council's own shortcomings, and I must advise you that we will take all steps to defend our professional reputation should this line be pursued. I will be happy to give you more details on a confidential basis if you would kindly contact my secretary to arrange a meeting.

Yours sincerely

Will O'Warbler

Senior Partner

KNIGHT, JARR & SWIFT ~ 4 CHALET COURT ~ BUNGALORE ~ BU2 4PY

"Lighting

FEDERAL REPUBLIC OF HUTLAND

Local Audit Commission

Provincial Auditor – Tom Titt

Sandy Piper
Dwellingtonia Provincial Council
Council House
Constitution Square
Bungalore BU1 1HQ

22 June 2001

Dear Sandy,

Payments statistics

Further to your enquiry, I can confirm the Commission figures quoted by your Paymaster. These 2000/01 statistics, based upon a 2½% sample of invoices from each authority, produced an overall Hutland average of 26.18 days with a standard deviation of 7.63 days. Perhaps more interestingly, the table below sets out the payment profiles of each authority :

% of invoices paid in -	1-10 days %	11-20 days %	21-30 days %	31-40 days %	>40 days %
Casablanca	0.75	5.25	85.25	6.15	2.60
Dwellingtonia	7.06	18.47	46.60	19.47	8.40
Hovelton	2.16	7.43	76.67	8.93	4.81
Maysonett	0.65	11.03	70.85	12.97	4.50
Tabernacle	0.93	8.52	71.26	14.22	5.07

Our "beacon authority" for creditor payments is Casablanca Council and the statistics above demonstrate Casablanca's active management of its payments. This ensures that Casablanca is able to comply with the Government's Fair Payment Guideline by making 90% of its payments to suppliers within thirty days of invoice receipt. At the same time, it minimises the interest penalty arising from the uncontrolled issue of early payments.

As regards the relative costs of the payments function at Casablanca and Dwellingtonia, Casablanca has agreed that I can share with you its 2000/01 figures (unit costs per payment).

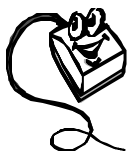
	Casablanca £	Dwellingtonia £
Staff Costs - Central	1.62	1.97
Staff Costs - Devolved	1.32	1.29
IT Costs	0.96	0.72
Other Costs	0.45	0.49
	4.35	**4.47**

I trust that these figures suit your purpose.

Yours sincerely

Nye Tingale

Principal Officer (Best Value)



DWELLINGTONIA PROVINCIAL COUNCIL

internal e-mail

From : Carl Yew (Principal Accountant (Services Team A))
To : Sandy Piper (Principal Accountant (Projects))
Date : 25 June 2001 09.37
Subject : Housing Transfer - Related Costs

Further to your request, I can now confirm the outstanding figures required for your exercise :

- the initial estimate of additional Rent Benefit payments is £15,000,000 per annum (or £1,500,000 net of Government grant);
- the loss of income to the General Fund from the previous recharge for administration costs to the Housing Fund is £1,800,000;
- the amenity costs now chargeable to the General Fund total £250,000.

All the above costs are at 2001/02 prices levels. I apologise for the delay in letting you have these figures, but, to make up for this, I have in the table below converted all the costs to estimated outturn levels, using the agreed inflation factor.

	2001/02 £000	**2002/03 £000**	**2003/04 £000**	**2004/05 £000**	**2005/06 £000**	**2006/07 £000**
Rent benefit payments	1,500	1,545	1,591	1,639	1,688	1,739
Administration recharge	1,800	1,854	1,910	1,967	2,026	2,087
Amenity costs	250	257	265	273	281	290

I can also confirm that all the proposals recently put forward by Caseload Associates have been accepted and will be implemented.

I trust that this helps

Carl Yew
Principal Accountant (Services team A)

27 Curlew Close
Abodeen
Bungalore
BU4 2ZB

Private and confidential

Sandy Piper
Principal Accountant (Projects)
Dwellingtonia Provincial Council

26 June 2001

Dear Sandy ,

I am writing to you on behalf of the payments staff in a number of departments as we have heard that you have been told to carry out a review of the payments function.

Basically, we want you to know that we are sick and tired of being belittled by the Paymaster, Mr Dore. In our view, he never wanted the departments to take over any responsibilities for payments. He thinks that by constantly undermining our work, he can keep control and then find an excuse to go back to the old days when all the creditor payment work was done in his own section. We are worried that our own jobs may be at risk as a result.

It's true that our own managers aren't really interested in payments, providing they don't get any hassle from suppliers, but we are quite capable of doing a good job. We all put a lot of effort into learning about the new Disburse IT system, but it was then delayed for three months by Mr Dore, because he said it wasn't ready. As a result, there were teething problems when we started to use the system. Mr Dore said this only proved how useless we were compared to his own staff, and he stopped us accessing large parts of the system. His own staff are not happy about the extra checking that they have *to do as a result, so there is a bad atmosphere all round.*

We hope that you can do something to sort out this problem as part of your review, but please don't mention my name, as I don't want to be blamed for speaking out.

Yours sincerely

Polly Parrot

Payments' Assistant (Environmental Services)