

TEWKESBURY BOROUGH COUNCIL

Report to:	Council
Date of Meeting:	17 April 2018
Subject:	Severn Vale Housing Merger
Report of:	Chief Executive, Mike Dawson
Corporate Lead:	Chief Executive, Mike Dawson
Lead Member:	Leader of the Council
Number of Appendices:	Two

Executive Summary:

Severn Vale Housing Society has written to the Council to advise that its Board are considering a proposal to merge with two other registered housing providers, Bromford and Merlin Housing Society. This report considers the implications of this proposal and recommends a way forward.

Recommendation:

- 1. The Council formally approves the merger of Severn Vale Housing Society with the Bromford/Merlin Group subject to;**
 - 1) the approval of the merger by the Severn Vale Housing Society Board and;**
 - 2) the satisfactory completion, prior to the merger being completed, of an agreement(s) in respect of all matters of retained interest to the Council.**
- 2. That SVHS formally be advised that, on completion of the matters referred to in recommendation 1 (or upon the coming into effect of the Social Housing (Influence of Local Authorities) (England) Regulations 2017), the Council will agree to give up its Shareholder role and Board Representation nomination rights.**
- 3. That authority be delegated to the Chief Executive, in consultation with the Leader, Deputy Leader, Lead Members for Built Environment and Health and Wellbeing, to complete all necessary documentation and agreements to implement the above mentioned resolutions .**

Reasons for Recommendation:

The recommendation supports the proposal for the merger of Severn Vale Housing Society with Bromford/Merlin Housing Society and provides an effective process to proceed whilst ensuring the Council's interests are protected.

Resource Implications:

None.

Legal Implications:

The Social Housing (Influence of Local Authorities) (England) Regulations 2017 came into force in November 2017 and these Regulations provide that from May 2018 :

- the number of local authority representatives on registered providers, such as SVHS, cannot exceed 24% (which is the current level of representation by the Council); and
- that a local authority cannot hold or exercise any voting rights in registered providers as a shareholder.

This means that the Council will lose its shareholding in May 2018 and, as a consequence, cannot influence any decision by SVHS to amend its Rules to exclude the current Council Board representation.

With regard to the merger with the Bromford/ Merlin Group, the LSVT Transfer Agreement provides that the agreement is personal to Severn Vale and cannot be assigned without the express consent of the Council. The resolution seeks consent to merge with the Group subject to satisfactory completion of an agreement(s) in respect of matters of retained interest to the Council.

Risk Management Implications:

These are set out in the report. The risks to the Council can be mitigated through effective legal agreements to be established through the process.

Performance Management Follow-up:

The merger process will be monitored closely by officers in the corporate, financial, legal and housing teams. It is proposed that a report on the effectiveness of the merger will be forwarded to the Overview and Scrutiny Committee one year after completion.

Environmental Implications:

Not applicable.

1.0 INTRODUCTION/BACKGROUND

- 1.1** Severn Vale Housing Society (SVHS) was established by the Council as its housing stock transfer organisation in April 1998. Since that time it has managed, improved and developed the housing stock as the Council's largest social landlord and key registered housing provider (RP) partner. In this role, SVHS has not simply managed the housing stock transferred, it has undertaken multi-million pound stock improvement programmes, supported this Council's homelessness and housing register functions and developed new homes throughout the Borough.
- 1.2** Over the years since 1998, the SVHS stock has been reduced by right to buy sales, but it has been added to through the RP's development activities. The current stock level is circa 3500 homes.
- 1.3** With its current level of stock, although SVHS is the largest landlord in the Borough, it is one of the smaller housing RPs compared with many others. Recently, there has been a tendency nationally for smaller RPs to merge to create larger organisations or to merge with larger RPs. The reasons behind this trend are often linked to more robust financial sustainability, organisational efficiency and capacity to deliver higher numbers of affordable housing. This trend has been tacitly supported by Homes England, the regulating body for RPs.

1.4 In the case of SVHS, in late 2017 the Board undertook a review of the organisation's strategic options for its future direction. The options considered were:

1. maintain SVHS as a local focussed RP, principally centering its business on Tewkesbury Borough; or
2. investigate the potential options for collaboration with other partner RPs, including mergers.

1.5 The SVHS Board concluded that, under the current business model, SVHS could continue to exist as a local RP and that its future financial position to undertake this role was sound. However, the Board agreed that the comparatively small financial footprint of the organisation would limit its capacity to deliver affordable housing on a scale required by the planned growth within its area of operation. Furthermore, by being part of a larger organisation, the Board recognised that there would be opportunities to achieve organisational efficiencies, improved resilience and better staff attraction/retention. Therefore the decision of the Board was taken to investigate option two in Paragraph 1.4 above.

2.0 THE PLANNED WAY FORWARD FOR SEVERN VALE HOUSING SOCIETY

2.1 SVHS has considered a range of options for merger and collaboration with other RPs. It was important for the Board that any partner organisation would have a similar approach to SVHS in respect of communities and housing provision as well as maintaining a local focus and presence. A number of the potential opportunities failed that test. In addition, there were options to merge with similar smaller RPs, but these partnerships did not deliver the scale of organisation which would be capable of meeting all the Board's aims, especially in respect of affordable housing development.

2.2 At the time that SVHS was considering collaborative arrangements, Bromford Housing Group (BHG) and Merlin Housing Society (MHS) had already agreed to merge their organisations under the Bromford banner.

2.3 BHG are based in the West Midlands, but operate along the M5 corridor including having a significant presence (6,500 homes) in Gloucestershire. In total BHG own and manage approximately 29,000 homes. MHS, the stock transfer RP of South Gloucestershire Council, operate predominantly in that and the Bristol/Bath areas. MHS owns and manages some 9,000 properties. The Council's housing function has no contact with MHS, however Bromford are one of the Council's most respected and important housing RP partners.

2.4 BHG and MHS had established four key principles to underpin their merger:

1. Delivering services which focus on and develop local communities – based on the Bromford Neighbourhood Coaching Approach.
2. A strong financial position for a sound and sustainable business - providing the capability to deliver significant affordable housing growth.
3. Transformation of business systems – a single approach that works for customers and delivers organisational efficiency.
4. Creating an organisation which people want to work for – to attract and retain the best people.

- 2.5** Given the close match of these objectives with their own, and the similar organisational nature of the three RPs, SVHS approached BHG and MHS to discuss the possibility of being included in the merger arrangements. Following detailed discussions, the Heads of Terms for a three way merger have now been agreed by all three Boards. However, as BHG and MHS are progressing at a more advanced timetable, they will go ahead with their merger plans and aim to complete this in July 2018.
- 2.6** SVHS has now formally informed the Council of its intention to develop a detailed business case to support a merger with the merged BHG and MHS. In that letter, which is attached at Appendix 1, SVHS has set out:
1. the reasons for the merger and advantages offered by a merger with BHG/MHS;
 2. commitments in principle which will underpin the merger and the future services to be provided to tenants, communities and partners in Tewkesbury Borough;
 3. a broad overall timescale to undertake the merger; and
 4. a formal request for the Council's 'in principle' support.
- 2.7** The merger of SVHS with the new BHG/MHS partnership will require further work by the three partners. For SVHS, this will include development and approval by the SVHS Board of a detailed business case and consultation with tenants and stakeholders. There remains a large amount of work to complete. SVHS plans to consult with tenants and stakeholders in April and May 2018 with a view that matters raised and comments can be taken into account when the Board considered the detailed business case in summer this year. SVHS has advised the Council that the overall plan will be to work towards a merger with the new BHG, enlarged by MHS, in early 2019. The branding of the new merged organisation will be 'Bromford'.

3.0 CONSIDERATION OF THE PROPOSED MERGER

- 3.1** The advantages and disadvantages of the proposal have been discussed informally by officers and the informal Executive Committee/Corporate Leadership Team meeting. The output from these considerations can be summarised as follows:
1. Advantages
 - There is a clear commitment from the merged group to improving local housing and community services and the staff resources per house provision is significantly greater under the merger proposals.
 - The merged organisation will be more financially sustainable and capable than the current SVHS financial model allows.
 - The new organisation will be capable of delivering more affordable housing to support growth in Tewkesbury Borough. The expressed delivery target for the whole of the area covered is 14,000 homes in 10 years.
 - A larger RP will have economies of scale which will deliver efficiencies and improved more consistent operational systems.
 - The new organisation will be more attractive for staff recruitment/retention.
 - There is a commitment to maintaining a local Tewkesbury office based presence.
 - In its letter to the Council SVHS has committed to retaining current arrangements in the Transfer Agreement in respect of housing nomination rights, right to buy receipts and other operational commitments.
 - There is commitment to maintaining and improving formal and informal links with Tewkesbury Borough Council Members, especially at ward level.

- The strategic focus of the new merged RP and its area of operation will cover the Council's own area of growth focus along the M5 corridor and extend in total from the West Midlands to the West of England. A map of the total area covered is included at Appendix 2.
- This is a merger with local RPs, two of which are already the Council's key housing partners. The alternative could involve merger with larger and more distant RPs which do not necessarily have the same focus and links to Tewkesbury Borough. Given the current trend and Homes England preference for less numbers of larger RPs, such a merger may in future become a reality if SVHS is not able to progress with the current proposal.

2. Disadvantages

- The Council will lose its representation nomination rights to the SVHS Board. Clearly, it is not possible for the Board of an enlarged Group to include Member representatives from all local authorities covered. However, the Council will be invited to send representatives to a local 'Senate' board which will include tenant representatives.
- The Council and tenants will lose their shareholding in SVHS from May 2018 and in any event the Society will no longer exist from the date of the merger .
- There are risks that the new organisation will not hold to its commitments in future; however these can be set out in an agreement document delivered through the merger process.

3.2 It should be noted new legislative powers will mean that, in any event, the SVHS can vote to remove the Council's Board representation and shareholding in the Society with effect from May 2018.

4.0 ISSUES FOR CONSIDERATION BY TEWKESBURY BOROUGH COUNCIL

4.1 The formal relationship between the Council and SVHS is set out in the Transfer Agreement approved by Council and which came into effect on 1 April 1998. This is an extensive set of legal documents dealing with such issues as the transfer (by sale) of the housing stock and land to SVHS, the 'Tenants Offer', representation of Council Members on the SVHS Board, Council house sale receipts, housing stock nomination rights and many other detailed matters.

4.2 Under the Transfer Agreement, SVHS require the Council's approval to assign the housing stock and other assets to a third party. The proposed merger cannot be completed without this and therefore SVHS has formally requested this approval in its letter to the Council.

4.3 As well as protecting the Council's interests, a main function of the original Transfer Agreement was to include controls to protect the interests of tenants. Therefore, the Council's approval of the merger represents an important endorsement and SVHS will wish to include this as a statement within the forthcoming merger consultation with tenants and stakeholders.

4.4 Consideration of the advantages and disadvantages of the proposed merger indicates that it would confer many benefits to SVHS tenants and communities and importantly to the Council strategically and operationally. It would certainly provide a more strategically capable housing partner while retaining local focus and presence.

4.5 It is proposed that the Council indicates its approval of the merger proposal with BHG/MHS and proceeds to work with SVHS and its partners to secure its delivery. However, although SVHS has requested formal approval of the merger, at this stage this can only be given in principle, subject to the satisfactory conclusion of an enduring binding agreement in respect of matters which protect the Council's interests.

5.0 OTHER OPTIONS CONSIDERED

5.1 Not applicable.

6.0 CONSULTATION

6.1 SVHS intends to undertake a consultation of tenants and stakeholders in the coming weeks, the results of which will be considered by its Board when considering the merger business case.

7.0 RELEVANT COUNCIL POLICIES/STRATEGIES

7.1 Implementation of the Council's Housing Strategy is dependent upon effective partnerships with key partners.

8.0 RELEVANT GOVERNMENT POLICIES

8.1 The government has set national targets for housing and affordable housing delivery.

9.0 RESOURCE IMPLICATIONS (Human/Property)

9.1 None.

10.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

10.1 None.

11.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

11.1 None.

12.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

12.1 None.

Background Papers: None.

Contact Officer: Mike Dawson, Chief Executive Tel: 01684 272001
Email: mike.dawson@teWKesbury.gov.uk

Appendices: 1: Letter from Severn Vale Housing Society.
2: The operating area for the new merged registered Housing Provider – Bromford.