

MIDDLESBROUGH COUNCIL

AGENDA ITEM 16

COUNCIL MEETING

29 MARCH 2017

CONSOLIDATION OF THIRTEEN GROUP

STRATEGIC DIRECTOR OF FINANCE, GOVERNANCE AND SUPPORT

PURPOSE OF THE REPORT

1. To inform Council of the proposed group consolidation of Thirteen Group, and the associated impact on Erimus Housing Limited, and to seek Council's approval of the recommended way forward.

BACKGROUND

Proposal

2. Thirteen Group provides services to its partners which own and manage 34,000 homes across the North East; Erimus Housing is one of these partners. Thirteen Group has proposed to simplify the group structure by consolidating Erimus Housing and the other three registered providers in the group to form a single registered provider operating across all the current operating areas by 30 June, 2017, subject to all necessary approvals being in place.
3. The proposal will result in the organisation being led by one single board. Existing Board Directors from across Thirteen Group will be invited to apply for the new positions on the new Thirteen Board and Committees, subject to having the required skills and knowledge, with external recruitment being sought for vacancies as a result of any skills gaps or insufficient appropriate applications.
4. The proposals ultimately aim to streamline Thirteen Group operations and the borrowing arrangements of the group, and enable more efficient investment in the provision and development of social housing and releasing financial capacity across the group and ultimately facilitate further investment in Middlesbrough.
5. Fundamentally, this move towards a 'One Landlord' approach ensures that Thirteen Group remains as a Registered Provider with regulation through the Homes and Communities Agency. Further, Thirteen Group will convert to a community benefit society and maintain its status as an exempt charity as outlined in the appended document.

Consent Requirements

6. The Council is required to consent to the proposed change to the existing Articles of Association as stated in the attached proposed Heads of Terms. However, it should be noted that through the Housing and Planning Act 2016 the Government can now limit the influence of local authorities over housing associations. These regulations have not yet been issued, but it is expected that they will stop local authorities from exercising so-called “golden share” arrangements (where the local authority holds a nominal share which can out-vote all other shares in specified circumstances) and cap local authority nominees at 24% of the board.
7. The Act also gives the Government powers to:
 - limit the ability of local authorities to nominate persons to an association’s board;
 - prevent them from exercising such a right altogether; and,
 - require authorities to relinquish any voting rights they have in an association.

Council Representation

8. Against this legislative backdrop, and given that the new arrangements remove the automatic representation of Middlesbrough members on the board of Thirteen Group, we have negotiated hard to ensure that there are strong governance arrangements which ensure that Middlesbrough interests are represented in the new structure.
9. The Council’s current representation (two elected members) will no longer have an automatic position on the Board and would be required to apply for the available positions. However, as noted in the ‘Heads of Terms’, upon which the consent of Council is required (**Appendix 1**), the Council would be notified of any vacancies arising and ‘shall have the opportunity to put forward candidates’.
10. The Council and Thirteen Group would sign a legal collaboration agreement which would among other things establish a Delivery Board specifically for Middlesbrough with representation from elected members and officers of the council and senior Thirteen Group officers. This Delivery Board would develop a delivery plan for the following five years which would be refreshed annually and would be accountable for delivery of the plan to the Thirteen Group board and the Council.

Delivering a Better Service

11. The proposed change to the group structure will seek to deliver efficiencies in service provision to off-set some of the impact of Government policies such as the 1% cut in social rents each year for the next four years, extension of the Right to Buy provisions to all housing association tenants and limits to rent payable on new tenancies after 1 April 2016. Further, the proposal aims to reduce bureaucracy and duplication which currently exists as a result of

operating four separate subsidiary Registered Provider Partner Companies such as staffing and resourcing four individual Boards. Thirteen has projected that savings in this area could be in the region of £500k per annum.

12. Tenants have been consulted on the proposed changes, and Thirteen Group has committed to ensuring tenants will see no changes as a result of the proposals and are committed to continuing and enhancing a local approach to service provision. All contact details and repair reporting procedures will remain the same. Tenants will see no changes to their tenancy agreement and their existing rights, but tenants would be formally notified of the change in Landlord. All former local authority tenants will retain their rights such as preserved Right to Buy and no changes will be made to the promises made within the transfer agreement. The appended document indicates that “Thirteen will continue to put tenants at the heart of how it delivers services”.

Delivering Increased Investment

13. In addition to the service efficiencies expected to be generated, Thirteen Group aims to release capacity by consolidating assets and increasing investment in the provision and development of social housing. It is anticipated that Thirteen Group will generate a further £300million investment potential as a result of the proposals. Utilising the additional funds through investment specifically in Middlesbrough allows for further development in partnership with the Borough Council. This will build on an excellent track record.
14. In 2014, the Council's Executive received a report which set out how Erimus had fulfilled its obligations within the Stock Transfer Agreement. The report concluded that the Stock Transfer had given rise to a positive partnership and delivered a major boost of £160m in terms of investment in the existing housing stock and over 430 new homes being developed in Middlesbrough, totalling £45m of capital investment, to meet local housing needs.
15. The report went on to say that as a key partner in the regeneration of the town, and by working closely with the Council, Erimus has helped deliver major improvements in the sustainability and resilience of regeneration areas, such as Grove Hill, and that Erimus will continue to be a major partner both in term of local employment pathways; meeting housing needs; contributing to the health and wellbeing agenda; and, delivering improved neighbourhoods and services for the future. Thirteen continues to demonstrate its commitment in this area through its plans for new homes in Grove Hill and involvement in the development and implementation of the North Ormesby Community Plan.
16. Maintaining the momentum of housebuilding is a critical strategic priority for Middlesbrough. This involves meeting the need for both market and affordable homes. Thirteen has delivered by far the largest affordable housing programme in Middlesbrough. No other social housing provider has delivered, or has plans to deliver, on anywhere near this scale. Between 2014 and 2017, Thirteen Group delivered more than 300 homes across Middlesbrough at a cost in excess of £34 million. This included homes to meet a range of needs at

Affordable Rent, Shared Ownership and sale, including within the town's regeneration areas.

17. Substantial discussions have taken place between Thirteen Group and the Council in order to ensure that Thirteen Group continues to invest in Middlesbrough. Those discussions have yielded a proposed Collaboration Agreement (**Appendix 2**), which specifies that Thirteen Group will undertake to develop 500 new homes in the Borough within the next 5 years, invest £376 million in its stock in the Borough over the next 30 years, and has agreed that the Council and Thirteen Group will work together to manage current neighbourhoods and encourage social investment.
18. These measures should protect both a level of activity and investment specifically in Middlesbrough, and ensure an ongoing Middlesbrough voice in Thirteen Group as it develops. The Council will work with Thirteen Group to ensure the local approach to investment continues. It is therefore considered that a Delivery Board should be established, underpinned by a Collaboration Agreement between the parties.
19. Given the additional financial capacity and investment, particularly in estate and public realm improvements, there is a need to ensure a coordinated role between Thirteen Group and the Council moving forward, with an accent upon the successful implementation of the Delivery Plan.
20. There are currently strategic and operational relationships between the Council and Thirteen Group which will remain in place, with an emphasis on improving performance and investment.

FINANCIAL CONSIDERATIONS

21. There are no financial implications arising from this report.

RECOMMENDATIONS

22. It is therefore recommended that:
 - a) Council consents to the proposals for consolidation as outlined in the Heads of Terms (**Appendix 1**) subject to the parties subsequently entering into a Collaboration Agreement in the form annexed to those Heads of Terms (**Appendix 2**); and
 - b) the Head of Legal and Democratic Services be given delegated authority to conclude a Deed of Variation to the Transfer Agreement and such other documentation in achieving the consolidation, in consultation with the Chief Executive and the Strategic Director of Finance, Governance and Support.

BACKGROUND PAPERS

23. There are no background papers to this report.

AUTHOR

James Bromiley

Strategic Director of Finance, Governance and Support