

CABINET

20 June 2023

Title: Barking and Dagenham Reside Regeneration Ltd (Reside) Business Plan 2023-28	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report with Exempt Appendix A (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972)	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Executive Team Director: James Coulstock, Strategic Director of Inclusive Growth	
Summary <p>This report seeks Cabinet approval of the Barking and Dagenham Reside Regeneration Ltd (Reside) 2023-28 Business Plan, in line with the requirements of their Shareholder Agreement.</p> <p>This Business Plan has been scrutinised by the Shareholder Panel, the advisory body created to monitor and to report to Cabinet on the performance of Companies that the Council has a shareholding interest in. Reside is the company which manages the Reside group of companies. Performance against this plan will be monitored through the Shareholder Panel.</p> <p>The coming five years are ones of expected significant growth in the number of homes which will be managed by Reside. It is essential that the strategy to scale up operations and provide a competitive, fit for purpose management model is successful to enable Reside to be able to meet the requirements set by the Shareholder as well as to enable successful delivery of affordable and high-quality homes to working households.</p> <p>The Business Plan is contained at Appendix A which is in the exempt section of the agenda as it contains commercially confidential information (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <p>(i) Approve the Barking and Dagenham Reside Regeneration Ltd (Reside) Business Plan 2023-28 as set out at Appendix A to the report; and</p>	

- (ii) Delegate authority to the Chief Executive, in consultation with the Shareholder Panel, to:
- (a) approve the final timeline for withdrawal of services from the Council and delivery of the detailed Neighbourhood Management model as set out within the Business Plan;
 - (b) take all necessary action to enable Reside to carry out its proposals under the Business Plan and to agree any variations to the business plan, legal agreements or shareholder agreement as necessary, subject to the provisions of the Subsidy Control Act 2022;
 - (c) approve, subject to compliance with the Public Contracts Regulations 2015 and the company's contract rules, the exercise of all decisions relating to reserved matters to enable Reside to enter into any procurement or other commitment required to enable the delivery of the Business Plan, including:
 - (i) The procurement of a substantive repairs and maintenance provider (subject to a successful delivery of a pilot scheme)
 - (ii) The procurement of an income collection provider.

Reason(s)

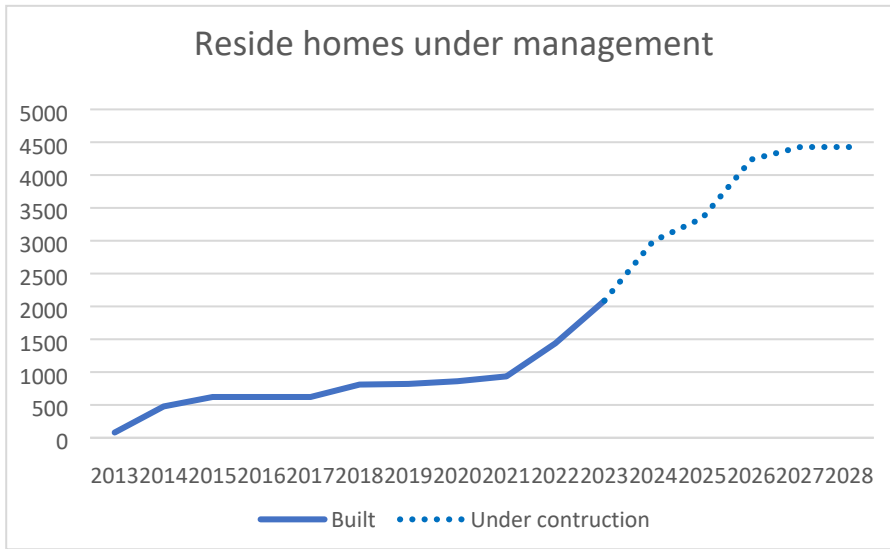
To assist the Council with delivering the Inclusive Growth Strategy and delivering a well-run organisation. This proposal is in line with Recommendation 8 of the independent Growth Commission's report published in February 2016 and is therefore aligned to the Council's corporate priorities.

1. Introduction and Background

- 1.1 The approval of the Reside Business Plan is reserved to the Council as shareholder under a shareholder agreement entered into with Reside in 2020. This is an executive function exercised by the Cabinet on behalf of the Council as shareholder. In line with that agreement this Business Plan has been produced for Cabinet approval as outlined in the recommendations. This Business Plan is a consolidation of financial and other commitments across a portfolio of multiple legal entities within the Reside Group structure.
- 1.2 The Business Plans were approved by the Reside Board in May 2023 and have been scrutinised by the Shareholder Panel on the 22 May 2023.
- 1.3 This report highlights the key objectives to be delivered by Reside with the detailed financial commitments to be delivered set out in the exempt Appendices.

2. Reside Group performance highlights in 2022/23

- 2.1 The portfolio of properties held by Reside have more than doubled from c.1000 units in 2021 to 1,952 units as of May 2023 and they are projected to include an additional c 2,300 homes bringing the total number of homes under Reside management to c4,500 by 2028. The increase in development and completion of new homes is directly related to delivery of the Council's investment and acquisition strategy as all returns from Reside form a key part of the Council's Investment portfolio. The projected timeline for new homes to come under Reside management is shown below.



- 2.2 Reside currently contracts all of its housing management services to the Council and the Councils Investment and Acquisition Strategy (IAS) assumes a set level of cost for these which are set out within all our viability assessments. Those costs then form the backbone of our investment decisions meaning any reduction in Resides operational performance and corresponding reduction in financial return could potentially affect our ability to sustainably invest in building new homes. Conversely, any increased efficiency or improved operational performance could potentially mean more new homes could become viable in the longer term.
- 2.3 In recognising the need to ensure fit for purpose and financially efficient housing management services, Reside made a number of commitments in its 2021 Business Plan to review how its services are delivered and gradually move those functions into Reside direct delivery including lettings, income collection, tenancy management, finance and so on. Since then, the only element that has been achieved has been the transfer of finance functions from the Council into Reside. This business plan indicates, however, that there have been improvements in some elements of operational performance since 2021 such as in compliance reporting but overall, the services being provided to Reside by the Council are performing below the lowest quartile in almost all benchmark indicators.
- 2.4 Customer satisfaction for instance has shown no improvement since 2018 and income collection is sitting at 96.3% - significantly below the average benchmark for Housing Associations which is 99.6%. Current lettings performance is significantly below target with some of the new units handed to Reside in 2022 still not fully let. Reside have included within the plan a forecast for letting performance on some schemes which suggests they are anticipating void levels will remain high throughout 2023.
- 2.5 The Business Plan indicates that Reside achieved a positive outturn in 2022/23 with its surplus rent to the Council achieving above expectations but with several caveats that this is reported to be related to lower-than-expected charges for operation and maintenance costs from the Council to date. This suggests the positive financial performance is temporary, rather than the result of any genuine

improvements in performance. This outturn may change when detailed breakdowns of costs are undertaken and the full cost of services is absorbed.

3. Reside Business Plan Commitments 2023-28

- 3.1 The 2023 Business Plan proposes to address the performance issues noted above by setting out an ambitious new strategy focused on directly delivering its own management services as was originally envisaged when Reside was created in 2012. Reside have outlined that its new model will need to be focused delivering services that better meet the needs of residents with the high-level foundation for the new model seeking to make improvements by focusing on four key areas;
- Direct delivery of housing management services with a neighbourhood model of delivery;
 - Re-procuring of a repairs and maintenance provider;
 - Reviewing all other areas of services provided by the Council;
 - Recruiting a permanent finance team.
- 3.2 The business plan sets out more detail on the first key area, housing management services. It proposes a new Reside neighbourhood management service consisting primarily of a team of neighbourhood leads, directly employed by Reside who will be empowered to resolve resident and housing management issues at source. It is anticipated that this significant change to its operational model will enable Reside to achieve the autonomy it requires to become Barking & Dagenham's landlord of choice, as well as in time seek to drive down the cost of these services.
- 3.3 The core of the new model is to directly employ neighbourhood leads who will each own a 'patch' of 500-600 units, with support from more junior staff. The neighbourhood leads are expected to be on their patch most days to be a visible and accessible face of Reside. Reside are also proposing to incorporate the management of frontline services such as cleaning and caretaking into this locality mode once those services can be safely and compliantly de-coupled from the Council. All of these services are anticipated to be directly employed and managed by Reside by the end of 2023/24 and all are forecast to be achievable within the assumptions made in the Investment and Acquisition Strategy.
- 3.4 As suggested by it being one of the four priority areas, Reside have indicated that repairs and the quality and availability of these services is crucial to improving resident experiences in Reside properties. Resident dissatisfaction with the current repairs services is a main ingredient to resident satisfaction overall and the business plan notes that any new repairs service needs to reflect Reside's resident base who are predominantly working people. Arranging appointments around their availability such as evening and weekend appointments is important and is likely to become more so with the increasing number of market rent products being offered by Reside.
- 3.5 In seeking to improve the repairs performance Reside have launched a pilot with a new repairs provider at one of its housing schemes. Data from this (cost and performance) will be a key factor in any decision to remove or retain commissioning Resides repairs and maintenance function via the Council. It has been confirmed that subject to the pilot being successful, Reside fully anticipates procuring a

substantive new repairs and maintenance contract for all of its homes in the first year of this business plan.

- 3.6 The plan therefore sets out an ambitious strategy to undertake fundamental changes to the way in which services are contracted and delivered for reside properties. These changes are forecast to improve satisfaction with Reside properties and improve all performance metrics over the short to medium term.

4. Consultation

- 4.1 The Reside Business Plan has undergone the following consultation:

- Endorsed by the Strategic Director of Inclusive Growth
- Endorsed by the Shareholder Panel on 22 May 2023

5. Financial implications

Implications completed by: David Dickinson, Investment Fund Manager

- 5.1 The Reside BP 2023-28 focuses on a transfer of several services currently performed by the Council and its subsidiary company BD Management Services to being directly managed by Reside, allowing Reside to manage its services and fulfil its role as landlord. The business plan focuses predominantly on setting out the high-level foundation for a new operating model that seeks to deliver that objective by improving Reside performance in 4 areas:

1. Direct delivery of housing management services with a neighbourhood model of delivery;
2. Re-procuring of a repairs and maintenance provider;
3. Reviewing all other areas of services provided by the Council; and
4. Recruiting a permanent finance team.

- 5.2 This transition will be challenging and it will be important for Reside to upscale its resources to ensure a smooth transition. A more detailed Reside Business Plan for 2024-29 should be produced detailing the new structure, a plan for service improvement and a management and maintenance schedule and reporting plan to provide better responses to the Reside residents but also greater information to shareholders and the Council on performance.

- 5.3 In 2022/23 the number of units within Reside double to 1,952 units by May 2023. This increase in units and specifically the transfer from build to operational has been challenging, as outlined in the Reside Business Plan. During the year there were several handover issues, with delays in letting properties and delays in connecting the schemes to utilities. The delays resulted in additional costs for security (£597k), energy (£36k) and capitalised interest of approximately £2m (interest costs added to the cost of the scheme during the build phase). The security and energy costs were covered by the Investment and Acquisitions strategy (IAS), with the additional interest costs added to the scheme costs. Adding further costs to schemes that are already struggling with viability has reduced the returns expected for each scheme. During handovers there are usually some additional costs and delays but the handover delays from 2022/23 are not sustainable and have put pressures on the investment strategy that need to be

reduced. Improvements have been made to the handover process, but further improvements are essential.

- 5.4 An additional cost to the IAS is from delays in selling Shared Ownership (SO) units, with the hold costs being charged to the IAS. The sales of SO units has stalled due to the current difficult property market conditions and improvements in both the marketing but also being able to adapt to market conditions is
- 5.5 Historically, detailed reporting from Reside has not been provided although this has been mitigated by there only being a relatively small number of established schemes. The reporting in the Reside Business Plan has improved, but this still falls short of what it required to make informed decisions but also to accurately forecast future cashflows. Reside has recently purchased HousingBrixx to improve reporting, especially around forecasting cashflows but more work is required in reporting actual performance to allow reporting to be timely and enable improvements to be discussed and agreed as they are required.
- 5.6 The Reside Business Plan shows that surpluses forecast to the Council are much reduced, especially based on the number of units that Reside will hold (4,500 by 2028). The surplus has been impacted significantly by the losses from Reside Ltd, due to the increased cost of the lease payments are linked to RPI inflation. Improvement in the management of the properties will help to improve these numbers but issues around the transfer of services to Reside or continued handover issues will negatively impact these figures. Due to the gross surpluses produced by Abbey Road, Gascoigne West and Reside LLP, even with further deterioration in performance by Reside, it is likely to remain viable and provide gross surpluses to Council, but the negative impact will be incurred by the Council as surpluses will be below the financing costs.

	2024	2025	2026	2027	2028
2023 B&D Weavers LLP	1,622	691	972	1,033	1,090
2023 B&D Abbey Roding LLP	1,000	1,093	1,124	657	672
2023 Reside Ltd	-967	-926	-691	-577	-512
2023 B&D Regeneration LLP	560	615	628	634	654
2023 B&D Regeneration Ltd	12	954	949	935	937
Management charge es: Reside Ltd ONLY	-171	-182	-184	-184	-187
Reside Surplus /(deficit) including Reside Ltd losses and management fee	2,056	2,244	2,798	2,498	2,655
Assume growth and handover of additional homes			322	375	398
Reside Surplus /(deficit)	2,056	2,244	3,120	2,873	3,052
Council Costs for undocumented loans (interest and principal)					
Abbey Road Interest	-650	-650	-650	-650	-650
Gascoigne West Annuity loan repayment on PRS	-1,001	-1,001	-1,290	-1,290	-1,290
Regen LLP (Fletchers, Bobby Moore and Kingsbridge)	-217	-272	-290	-290	-290
Reside Surplus after IAS deductions	188	322	890	643	823

- 5.7 The assumptions within the Reside model are prudent but there are current pressures within the social rent market, including bad debts, cost of living but also pressures from management, maintenance and lifecycle costs that may put additional pressure on management costs of the properties that will not be fully

covered by increases in rent. Future Reside Business Plans should include a lot more detail around the assumptions used in the models but also around sensitivity analysis around the impact of key risks.

- 5.8 Overall, while it is difficult to generate significant profits from social housing and it is not the intention of Reside or the Council to make significant profits, it is essential that, given the multibillion property portfolio that Reside will be managing in a few years, there is sufficient margin generated to allow some protection to the portfolio to allow the properties to be well managed and maintained for future generations. The 2023-28 Reside Business Plan does not fully address how improvements to the handover and management of the properties and it is important that the next Reside Business Plan includes this, including Key Performance Indicators and detailed reporting on scheme performance.

6. Legal Implications

Implications completed by: Ian Chisnell, Major Projects Solicitor

- 6.1 The legal basis for the structure has been set out in previous reports. Generally speaking, as most of the Reside vehicles are ultimately owned and controlled by the Council any procurement of services has to comply with the Public Contracts Regulations 2015. So any procurement of services could be undertaken from a framework, provided the provider had included local authority companies/LLPs in its tender notification.
- 6.2 Loans to the companies must be at a commercial rate and available to the companies on the open market, or the consent of the Subsidy Advice Unit must be obtained under the Subsidy Control Act 2022.

7. Other Implications

- 7.1 Contractual Issues - Development of Business Plans is a contractual commitment for all of the Companies and is designed to set the framework by which the strategic direction of each Company is considered and approved or endorsed by the Council as either a major or minor Shareholder.

This Business Plan proposes changes to the current commissioning of services to Reside which are, at present, contracted to be performed by the Council under a Housing Management Service Level Agreement. In separating services Reside are intending to terminate that agreement albeit the timeline for doing so for each element of the services provided is yet to be detailed.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- **Appendix A:** Reside Business Plan 2023-2028 (exempt document)