

Board Member Development Workshop

“Board Excellence Programme - Mergers, Acquisitions, Shared Services, Cost Sharing Groups”

Demerger – the art of the possible

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What I will cover

- ▶ A brief background to Cobalt
- ▶ Reflections on the Cobalt demerger - The Options
- ▶ The Outcome: rationale behind the decision
- ▶ The process: time and key factors for Board Members
- ▶ The Reality; risks and opportunities
- ▶ The Lessons Leant

Cobalt – a brief summary

- Formed in 2003 after 6,300 properties transferred from Liverpool City Council part of an Large Scale Voluntary Transfer (LSVT)
- Stock was in a extremely poor condition and demand very low
- Joined an existing housing association in a “Federated” Group Structure.
- Onward decided to collapse group structure in 2014
- Cobalt demerged in September 2017





Partnership Review – outcome and options to Cobalt

- ▶ April 2014 Symphony began a partnership review to decide on how best it could meet the challenges it would face and become a more efficient organisation able to deliver more
- ▶ Progress was slow, but with the appointment of a new Group Board Chair and Group CEO in 2016 it was agreed that the preferred option was to collapse the group and move to a single organisation (Downgrade to G3 supported this). The group name changed to Onward.
- ▶ Cobalt had the choice of disappearing or demerging






Cobalt – Board accountability and responsibility

- ▶ Cobalt Board responsible for Business Plan – but needed to be ratified by Group board
- ▶ Ownership of stock with Cobalt NOT Group
- ▶ Cobalt Board Responsible for recruitment of Board Members and senior staff, including the Managing Director
- ▶ Cobalt had its own Senior Management Team
- ▶ Only core Corporate services bought in from Group mainly IT, HR, Risk Management and Communications





The Asks

- ▶ The questions asked are very similar if you want to merge, demerge or acquire; they revolve around what would be:
 - ✓ Better for tenants
 - ✓ Deliver better value for money
 - ✓ Provide better service delivery
 - ✓ Give better control over risk
 - ✓ Result in better management of health & safety
 - ✓ Help create better partnerships, especially with local authorities
- ▶ Each subsidiary was asked these questions and sought evidence to substantiate



The Process - Cobalt

- The Cobalt Board felt that a great deal had been achieved since 2003 and wanted to make sure that any changes would have a positive impact on tenants and the neighbourhoods where they lived
- To help they appointed a number of external consultants to ensure an clear independent conclusion was reached; they were:
 - Altair for governance, finance and overall “fitness for independence”
 - Anthony Collins Solicitors (ACS) for legal and procurement
 - Scrutiny & Empowerment for project management and board development
 - PS Consultants for tenant consultation
 - Capita for treasury management and funding





The Outcome

- Cobalt Board felt there was no detail to the possible outcomes identified by Symphony in moving to one organisation – “nice words no substance”
- Whilst the external consulting team found that:
 - Cobalt was a well managed financially strong organisation that would be able to manage as a stand-alone organisation
 - The business plan was strong and significant savings could be identified to make a strong value for money argument
 - The conditions set out in the demerger clause could be satisfied
 - There was massive tenant support for cobalt to leave the group with 98% voting in favour of retaining local management and accountability
 - Funders were very happy to make an indicative offer to a stand-alone Cobalt



The Rationale and Risk behind the decision

- ▶ When presented with all the evidence, and satisfied that the tests and scrutiny from the external consultants on Cobalt's ability to retain its high performance and strong financial viability, was positive, the Cobalt Board felt that it was in the best interest of its tenants to demerge from the group.
- ▶ By demerging the Board felt that:
 - Clear evidence that Value for Money would be achieved
 - Management by a board of Management and Executive Team with a total focus on service delivery in a tight geographic area
 - The use of financial resources would be more effective and the local outcomes would be maximised
 - Cobalt would keep to its original purpose
- ❖ They did not see any risk given the circumstances





The Reality

- ▶ Demerger was right for Cobalt
- ▶ ICT proved to be the most challenging part of the process
- ▶ Maintaining performance whilst restructuring the organisation was a challenge
- ▶ Keeping our purpose and mission has helped us create a vision for the future
- ▶ Board is more aware of the issues facing are tenants and are in a much better position to respond
- ▶ It is not for the faint hearted
- ▶ Board are stronger and more accountable



The lessons learnt (1)

- ▶ This is a long and complicated process
- ▶ Have a clear vision on why you are doing this
- ▶ The decision has to be based on sound financial information, that can be easily verified
- ▶ It is a distraction so make sure you don't forget about the day to day performance
- ▶ External help and assistance is vital



The lessons learnt (2)

- ▶ A strong demerger clause is a massive help
- ▶ A strong and unified Board and Executive Team is essential
- ▶ You must be a high performing organisation with financial strength, good management and high satisfaction levels
- ▶ Get the tenants support as after all they are why you are doing it

THANK YOU

➤ Any Questions

➤ Contact Details

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