

CABINET

DATE OF MEETING: 3rd FEBRUARY

TITLE OF REPORT: **REPORT OF SCRUTINY PANEL ON THE OPERATION OF HART HOUSING PROPERTY MANAGEMENT COMPANY**

Report of: **SCRUTINY PANEL**

Cabinet Portfolio: **Deputy Leader and Finance & Corporate Services**

Key Decision **No**

Confidentiality Non Exempt

1 PURPOSE OF REPORT

- 1.1 This is a report from the Housing Company Scrutiny Panel and provides an update of the performance of the company to update Cabinet and enable the financial projections to be included within the budget for 2022/2023

2 SCRUTINY RECOMMENDATION

That

1. The positive performance of the Housing Company against the initial business plan is noted (see 4.2)
2. The updated financial projections of the Housing company are agreed for inclusion within the budget for Hart District Council 2022/2023
3. That Cabinet consider whether it wishes to consider changing the Articles of Association or bear the small risks associated with these items (see 4.4)
4. That Cabinet consider reverting to the original plan for the Scrutiny Panel to be convened twice per year (see 4.9)

3 BACKGROUND

- 3.1 In June 2021, by resolution of the Cabinet, Hart District Council created a new limited company, dedicated and wholly owned by the Council as the sole shareholder.
- 3.2 Cabinet approved the draft initial business plan, which set out in some detail a framework for the operation of the business including.
- The objectives and mission of the company
 - The company structure and governance arrangements
 - Its operational approach, how it would be financed and manage risk
 - Details of the Articles of Association and Shareholder Agreement were also provided

- 3.3 As part of the governance structure, a company scrutiny panel was established, comprising three members appointed annually by the Overview and Scrutiny Committee.
- 3.4 This was considered by Overview and Scrutiny Committee in July 2021 when Councillors Davies, Farmer, Harward and Smith were all nominated.
- 3.5 In September 2021, Cabinet considered a paper regarding the Housing Company Scrutiny Panel and approved the nominated representatives to comprise the 2021/2022 Scrutiny Panel to meet once a year to oversee company activity, provide strategic guidance and advise the Council in its capacity as Shareholder.
- 3.6 This is the first such report of the Housing Company Scrutiny Panel, the terms of reference for which can be found in appendix 1

4 MAIN ISSUES

- 4.1 The Housing Company Scrutiny Panel met on Wednesday December 15th, all Scrutiny Panel Members were in attendance as were the three Directors of the Housing Company. Minutes of the meeting can be found in appendix 2.
- 4.2 The Housing Company Scrutiny Panel heard of a number of highlights in the six months of operation including:
- Completion of statutory requirements for a new company and creation of appropriate documentation for a new business
 - An effective handover of the Edenbrook Apartments
 - All apartments let within 4 months with
 - 56% occupied by key workers such as 7 within the emergency services, 5 within social care, 3 within the health profession, 6 within the education profession and 2 from local government
 - 73% of residents had a local connection
 - No tenant was in arrears, reflecting the effectiveness of the vetting process
 - 2 flats have given notice at the 6 months break point – the first flat was relet within a week; the second flat is yet to be relisted.
 - The financial health of the business in the first year of trading is better than forecast, with faster letting of the flats, lower voids and no bad debts.
- 4.3 Whilst there were notable successes, the Housing Company Scrutiny Panel also heard that there had been some unanticipated challenges, these included
- A higher level of snagging with the asset than would have reasonably been expected. No action was asked of the Shareholder as matters were now well in hand.
 - To note that the Housing Company may need to make formal requests for the use of the Shareholder's staff, for which payment would be made at full cost recovery
 - The Shareholder has been requested by tenants to 'step into' management or operational issues as there is not sufficient clarity or delineation between the organisations. To note that HHPMC may seek to create a 'trading name'

under which to operate providing greater clarity of roles and responsibilities as well as provide an identity which will clearly establish the Housing Company is 'open for business'. The Scrutiny Panel members fully endorsed this suggestion to separate the identities of Shareholder and management company.

- 4.4 In addition to the above, the Housing Company Scrutiny Panel were also advised of a couple of risks that the Shareholder should be made aware of.

The Shareholder could simply decide to bear the relatively small risk for both of these matters, but should consider whether that is the approach they wish to take;

- The Shareholder should be aware that whilst standard terminology, the Articles of Association intimated that the Shareholder could require the Housing Company (via their Directors) to take or stop any specific actions, in doing so, increasing the risk of legal liability to the Shareholder. The Shareholder was asked to decide whether to bear the risk or amend the Articles of Association.
- The potential risk to the company from decisions taken by the Shareholder to divulge commercially confidential information which could impact future commercial viability or commercial agreements. Again the Shareholder is asked whether to bear the risk of amend the Articles of Association.

- 4.5 With regards to finances, the business is now stable and receiving a monthly income recognising that the first year or trading will need to absorb one-off set-up costs, it is still expected to break even.

- 4.6 The financial projections have changed since the original Business Plan. Demand for affordable, quality homes is higher than anticipated and the expectations of voids/bad debts is lower. However the anticipation of costs due to environmental factors has increased – for example – accidental damage and grounds maintenance. Some assumptions within the business plan have been amended to reflect lived experience

	Initial Business Plan	Current Business Plan
Void Rate/Bad Debts	5% gross rental per annum	2% gross rental per annum
Management/Letting agency fees	12.5% of gross rental income per annum. Based upon benchmark information.	14.7% based on tendered cost

- 4.7 The Scrutiny Panel queried the revised level of the Management/Letting agency fees and were assured that the charges were the result of a competitive tender process. Tendered management/letting fees being 17.6% higher than the initially benchmarked expectation is a considerable difference, though lower void rates and bad debts has more than offset this cost.

- 4.8 The Housing Scrutiny Panel also explored with the Housing Company future business opportunities, in particular the opportunity
- to work with local developers, private landlords and managing agents to identify future acquisition options
 - to work alongside Housing Associations to see if they have surprise property or homes where the Council's ability to borrow over longer periods could make investment viable or
 - partnering with local housing associations in future developments.

- 4.9 The Scrutiny Panel felt that convening once per year was not frequent enough, particularly in these early years of the property management venture. Meeting only in November or December would be half way through another company year before the previous year's performance would be assessed.

The Panel would suggest being convened twice per year, as was originally planned and set in the scrutiny panel terms of reference, at least for the next 2 years. Once should be soon after the end of year date, but allowing time for the preparation of the annual accounts and another time for a mid-year trading update and the business plan review. July and December might be appropriate scheduling.

- 4.10 In summary the Housing Scrutiny Panel has established that in its short time, the Housing Company has built appropriate governance foundations and delivered financial results in excess of forecasts, delivering higher than anticipated value back to the Shareholder.

Looking to the future, the Housing Company will evolve in the next 12 months by

- by building a strong brand (with a new trading name and website) enhancing local presence and profile and ensuring future partners know they are 'open for business'
- ensuring the right policies and procedures are in place giving the company the ethical framework appropriate to a company wholly owned by the Council
- proactively looking at the market and opportunities, assessing their value and bringing that to the Shareholder for consideration

5 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 5.1 The recommendations are set out in section 2. No alternatives have been considered or rejected.

6 CORPORATE GOVERNANCE CONSIDERATIONS

Relevance to the Corporate Plan and/or The Hart Vision 2040

The Housing Company meets the Council's ambitions as set out in the Hart Corporate Plan 2017-2022 to be a Council that is both efficient and effective and maximise income opportunities and increase financial self-sustainability.

Service Plan

Is the proposal identified in the Service Plan?	Yes
Is the proposal being funded from current budgets?	Yes
Have staffing resources already been identified and set aside for this proposal?	Yes

Legal and Constitutional Issues

As set out in Section 3, the Housing Scrutiny Panel is a formally constituted element of the newly created Housing Company. The terms of reference for this panel is set out in appendix 1.

As part of this, the Scrutiny Panel is requested to review the Company's Business Plan and advise Cabinet of its views, this report provides this feedback.

Financial and Resource Implications

The financial performance of the Housing Company has been much better than initially anticipated in the business case.

As such, the Shareholder should account for £0.24 million as a net position, for budgetary purposes for 2022/2023

Risk Management

The Housing Company provided an extensive risk register considered by the Housing Scrutiny Panel.

In addition, the Housing Company has highlighted some areas of risk that the Council, as sole shareholder will need to consider (see section 4.4)

7 EQUALITIES

7.1 Under equality legislation, the Council has a legal duty to pay 'due regard' to the need to eliminate discrimination and promote equality in relation to:

- Race
- Disability
- Gender, including gender reassignment
- Age
- Sexual Orientation
- Pregnancy and maternity
- Religion or belief.

The recommendations set out in this report should not have any impact on any of the protected characteristics highlighted above.

8 CLIMATE CHANGE IMPLICATIONS

8.1 It should be noted that the Edenbrook apartments were built to include

- Electric car charging points which are available to the public
- Solar panels which are used for the lighting in the common parts of the buildings
- Other initiatives to encourage biodiversity such as the swift bird boxes built into the brickwork to encourage summer migration

There are no other direct carbon/environmental implications arising from the recommendation.

9 ACTION

- 9.1 Subject to agreement of Cabinet, the financial information provided in appendix 2 will be used within the Councils forecast budget for 2022/2023