

OVERVIEW AND SCRUTINY

DATE OF MEETING: 14 FEBRUARY 2023

TITLE OF REPORT: REPORT OF SCRUTINY PANEL ON THE OPERATION OF BUTTERWOOD HOMES

REPORT OF: SCRUTINY PANEL

KEY DECISION: NO

CONFIDENTIALITY: NON-EXEMPT

PURPOSE OF REPORT

1. This is a report from the Butterwood Homes Scrutiny Panel and provides an update of the performance of the company to Overview and Scrutiny, in advance of possible consideration by Cabinet.

RECOMMENDATION

2. That the Operational Plan for 2023-2024 is noted, along with updates received on progress, financials, and operations; and any comments be made for inclusion into a further update report to Cabinet, should it be considered necessary to do so.

BACKGROUND

3. In June 2021, Hart District Council created a new limited company, dedicated, and wholly owned by the Council as the sole shareholder.
4. 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
5. As part of the governance structure, a company scrutiny panel was established, initially comprising three members appointed annually by the Overview and Scrutiny Committee, rising to four following a recommendation by Overview and Scrutiny in July 2021 and approved by Cabinet in in September 2021.
6. This is the third report of the Housing Company Scrutiny Panel, which for Council Year 2022/23 comprises of Cllrs Davies, Engström, Farmer and Smith.

MAIN ISSUES

7. The Butterwood Homes Scrutiny Panel met on Tuesday 24 January. All four Scrutiny Panel Members were in attendance, as were the three Directors of Butterwood Homes, the Portfolio Holder for Corporate Services (Observer status), and two members of HDC staff. Minutes of the meeting can be found in Appendix 1.
8. The Butterwood Homes Scrutiny Panel was presented with the Operational Plan for 2023-2024, which had been drawn up by the Directors since the appointment of two new

Directors in late 2022. Chairman John Swinney is joined by Kirsty Jenkins and Neil Hince. The Operational Plan (issue 1.1) can be found in Appendix 2. It is to be noted that since the last update given to Overview and Scrutiny, further changes in the Company's operations are that the book-keeping along with annual accounts production and tax return services has been outsourced to an external firm of accountants at approx. £2k per annum. This cost had always been factored into Butterwood Homes' accounts.

9. An AGM will be held after the 2021/22 Statutory Accounts have been finalised and audited, which is expected to be no later than 31 March 2023.
10. The Scrutiny Panel reviewed the projected outturn for 2022/23 and the following items crystallised during the discussion:
 - A forecast net payment liability of £242,000 due to Hart District Council for financial year 2022/23 compared to the previous forecast of £230,765, and an actual payment liability of £186,139 for 2021/22 (noting that this is a partial year payment, as the flats were not fully rented until September 2021).
 - The liability to Hart District Council comprises of two elements: a finance payment and a recharge for resources.
 - Compared to previous forecast, there has been an erosion of profit by £14k (or 14%), which is mainly due to an increase in staff cost due to Directors now receiving a remuneration for their statutory responsibilities, as per a decision made by Cabinet in an exempt session, and an upwards adjustment to the lease payments, despite rent income having been adjust upwards also.
 - Voids were running on average at 2.4% only since March 2022, with a slight anomaly in the summer when a flat was re-inspected thoroughly for alleged noise disturbance, which was subsequently found not to be an issue – but it was important to establish the facts on the matter before renting the flat out again. At the previous meeting, and reported to Overview & Scrutiny, voids were forecast to have reduced to 0.7% on an ongoing basis. This forecast is still valid as an ongoing assumption for 2022/23 and beyond.
 - Service Charges were reviewed. It is likely that Repairs and Maintenance costs will see a seasonal increase soon due to some warranties running out – provisions for these are being built up on the Balance Sheet of the Company; an electric meter issue has been detected, which may result in a credit to be received; and whilst we do not have a benchmark report ready to compare Butterwood Home's Service Charges levels and breakdowns with those of other, similar properties, it is of course the case that when the Council went out for a tender, Bridges had come out as the cheapest.
 - Whilst the lease fees are index-linked and renewed every 5 years, the rent to tenants is increasing by 2% year-on-year in the forecast.
11. An update was given on progress with the Company's website, which is now live but upon checking/ testing it in the meeting appeared to have a slight issue with its meta data, which the Directors will fix when also updating the Directors info on the website, with all other information on it being up to date. Over the next 12 months, the Directors are planning to develop the website with latest news pieces and a blog to keep it current. The Scrutiny Panel agreed that the Website has a slick look and is very responsive.

12. An update was given on progress with the current Letting & Management Agent Bridges, with the Directors further praising Bridges for their efficiency and responsiveness, especially compared to other agents they have come to know in past roles. Notably, Bridges are as enthusiastic about their duties as they were 12 months ago despite them receiving a fixed fee for their services and not an incentive-based fee. The Directors continue to meet with Bridges monthly and the relationship is strong. Tenants now raise their queries directly with Bridges and no longer with HDC, which is indicative of a well-managed contract. No complaints were received by tenants in the last 6 months. A re-tender is due after 3 years of contract.
13. In terms of future plans for the Company, the Directors will have met during w/c 30 January to discuss these, with a potential acquisition of another group of properties on the horizon. The Company is not looking for opportunities through aggressive marketing, instead prefers to grow slowly and as and when it has the capacity to grow. Any further expansions will only be undertaken under the direction of the shareholder.
14. A clarification was obtained post-meeting that the Public Work Lending Board (PWLB) will not allow borrowing for capital assets purposed to generate yield / profit and that this restriction is indeed applicable to both external *and* internal borrowing.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

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

CORPORATE GOVERNANCE CONSIDERATIONS

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

16. 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 – with the assumption that the New Corporate Plan will have equivalent expectations.

Service Plan

- Is the proposal identified in the Service Plan? YES
- Is the proposal funded by current budgets? YES
- Have staffing resources already been identified and set aside for this proposal? YES

Legal and Constitutional Issues

17. As set out in Section 3, the Butterwood Homes Scrutiny Panel is a formally constituted element of the Company. The terms of reference for this panel are set out in appendix 3 – unchanged from since they were last reviewed and approved in September 2022.

Financial and Resource Implications

18. The financial performance of Butterwood Homes continues to be solid and the 2022/23 projections reflect the stability of the Company, beyond the initial set up phase.

Risk Management

19. Butterwood Homes last provided an extensive risk register considered by the Housing Scrutiny Panel in December 2021. The level of risk was not revisited by the Panel on this occasion. A further review of the risk register will be undertaken at the next meeting of the Housing Scrutiny Panel.

EQUALITIES

20. 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.

CLIMATE CHANGE IMPLICATIONS

21. 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.

ACTION

22. Further to consideration by Overview and Scrutiny, the Housing Scrutiny Panel will present their findings to Cabinet.

APPENDICES

Appendix 1 – Minutes of Butterwood Homes Scrutiny Panel

Appendix 2 – Butterwood Homes Operational Plan 2023 - 2024

Appendix 3 – Terms of reference for Butterwood Homes Scrutiny Panel