

- BUIDHEANN TIGHEADAS LOCH AILLSE AGUS AN
EILEIN SGITHEANAICH LTD
LOCHALSH AND SKYE HOUSING ASSOCIATION

**MINUTES of MEETING of AUDIT, FINANCE AND RISK
SUB-COMMITTEE held on
Monday, 14 August 2023 at 10.30 am by Zoom/in person**

PRESENT: Mr I Young, Chair (Elected Member)
Mrs A Sinclair (Elected Member)
Mr R Nairn (via Zoom) (Elected Member)

IN ATTENDANCE: Mr N Clapperton (Chief Executive – CE)
Mr G Coull (Director of Finance and Corporate Services - DoFCS)
Ms J MacInnes (Corporate Services Assistant)
Mrs D Campbell (Corporate Services Assistant)

1. APOLOGIES

Mrs L Williams, (Elected Member), Mr J Watson (Elected Member).

2. DECLARATIONS OF INTEREST

No declarations of interest were made.

3. APPOINTMENT OF CHAIRPERSON

Ian Young stood down as chairperson. Audrey Sinclair proposed Robin Nairn as Chairperson of the AFR Sub-Committee, this was seconded by Ian Young and Robin Nairn was willing to accept this position and was elected as Chair.

4. MINUTES OF PREVIOUS MEETINGS

The Minutes of AFR Meeting held on 19 June 2023 were provided for information.

5. PROGRESS REPORT

Item 6 (i) DoFCS advised that the peer data on rent arrears performance had not yet been released by the SHR.

Item 6 (iii) DoFCS advised that a payment of £96k was received from Highland Council for Care and Repair on 25 April and £6k from the Scottish Government on 5 April, adjusting for these receipts would bring the remaining debtor balance at the end of March to £48k, which is consistent with the end of the first quarter 2023-24.

He advised that the current Care and Repair balance is around £35k, with approximately 70% owed by Highland Council and the remaining 30% by clients.

A Member asked about Item 11 (ii), the CE advised that the People Strategy has been split and a deadline has been set.

6. OTHER MATTERS ARISING

There were no other matters arising.

7. QUARTERLY MANAGEMENT ACCOUNTS TO 30 JUNE 2023

DoFCS advised that the Management Accounts have been prepared using the information and data from the Financial Plan 2023/2028, which was approved at the Board meeting on 27 March 2023 and commentary is focussed on the four strategic finance measures.

Discussing variances to budget in voids and reactive repair costs, the DoFCS advised that the average days for Changes of Tenancy (COT) was 23 days in the first quarter. The number of COT's was higher than normal due to a shift in practice allowing more existing tenants to move into new build developments. Some delays were the result of waiting for electrical inspections to take place as part of the EICR catch-up program. He advised that there is also one property which is to be leased and taking longer than expected to get this signed off by the other party and another property where we took the opportunity to change the heating system while it was vacant. He also advised that lack of resources and illness have contributed to the duration of COT's.

He advised that there are two new build developments due for completion later in the year which would further affect the voids number, noting that a change in budgeting approach would be needed for future financial plans given the change in practice.

Members discussed the Allocation Policy and advised they were not aware of a change. The CE advised that it was interpretation of the HHR policy and could be revisited as the impact of the shift perhaps hadn't been fully appreciated.

A Member advised that if properties are being deliberately held back for repairs or heat pump installation then this may not need to be reported. DoFCS confirmed that the numbers in the management accounts are "raw" numbers which will differ from those reported in the ARC, as the ARC has carve-outs for items such as major repairs.

DoFCS advised that the additional Handyperson funding from NHS has been confirmed for the rest of the financial year.

At a Member's request, DoFCS agreed to re-order the reports giving increased prominence to the budget vs actual comparison and analysis.

Members asked if the Senior Management Team also scrutinise the Accounts, the DoFCS advised that although not a specific agenda item it is discussed.

Members discussed the revised variance analysis as recommended by the internal auditor and interpreted by management; and agreed they were content with the variance levels of +/- 5% and > £500.

Noted.

ACTION:–

- (i) *DoFCS to re-order the reports giving increased prominence to the budget vs actual comparison and analysis in future Management Accounts.*

8. QUARTERLY RISK REGISTER REPORT TO 30 JUNE 2023

The CE provided the Report and advised that all the risks have been reviewed and incorporated changes previously discussed.

Members discussed the Risk Register and agreed that:

- Biomass is currently on the Operational Risk Register and should also be added to the Strategic Risk Register.
- Regulatory compliance to be added prior to the next Board Meeting
- Item 13, amend the language to reflect that TESM is already in post.
- Amend the order, so higher risks appear first

In response to a member's email, DoFCS confirmed that lenders have been kept appraised in relation to matters with the SHR, and a further update will be issued to them this week.

Members **Reviewed** the Strategic Risk Register and **confirmed** that with the few changes noted they were content with the content and prioritisation of the individual risks and **recommended** it to the Board for approval.

ACTION:–

- (i) *Biomass to be added to the Strategic Risk Register.*
- (ii) *Regulatory Compliance to be added to the Risk Register prior to the Board Meeting on 28 August.*
- (iii) *Amend the language in Item 13 as TESM is already in post.*
- (iv) *Amend the order of risks so higher risks appear first.*

9. AUDIT FINDINGS TRACKER REPORT

DoFCS provided the quarterly Audit Findings Tracker Report.

Members discussed the Report.

In response to a Member's question, DoFCS advised that he needs to discuss the scope and cost of improvements to the HomeMaster database and what benefits will be achieved to see if this will be worth the investment.

While considered a low priority recommendation by the Auditor, it was noted that the Assurance Document would have another priority level for the Annual Assurance Statement.

Members noted the reliance on spreadsheets at AM.3 and DoFCS confirmed that although this is the case they are well controlled by staff. A decision will be made about a new Asset Management system by March 2024.

In relation to IT and Corporate Services, DoFCS advised that there are discussions taking place with Clearview about implementing Microsoft 365, which would integrate with a new phone system and also MS Teams. Members agreed that some of the IT recommendations are great in theory, but not in practice nor business critical and so don't all require to be actioned.

DoFCS is to review Corporate Services items relating to IT and provide actions for the November Meeting.

CE advised that the People Strategy is achievable by the dates specified and it was also noted that a Member had advised of his experience in this area and willingness to assist.

Members **reviewed** the Audit Findings Tracker and **noted** the changes and updates since the last quarter and **approved** the removal of items newly marked as complete.

ACTION:-

- (i) DoFCS is to review Corporate Services items relating to IT and provide actions for the November Meeting.*

10. INTERNAL AUDIT REPORTS AUGUST 2023 – BUDGETARY CONTROL AND HR MANAGEMENT

Budgetary Control

DoFCS provided the Report and advised that the Senior Management team and managers responsible for the services being audited reviewed the Audit findings and responded to the recommendations.

DoFCS advised that the recommendation to add Cash Flow Data has been completed and is in the current AFR papers.

He advised in relation to Recommendation 3, Reactive and Void maintenance, as we currently have a manual system for committed spend but we are working towards an holistic system.

Members agreed that additional narrative within the Management accounts for budget variances made sense, at the level previously agreed during the discussion of management accounts during this meeting.

Members advised that the low number and level of recommendations is good and shows strong improvements over the last few years and passed on thanks to staff for getting full assurance.

HR Management

Members had an in depth discussion and noted that the present overall status is due to the amount of recommendations rather than the severity and were content that:

Recommendation 4 - the suite of documents we currently have available through EVH should be sufficient and a management comment should be sent to decline the recommendation.

Recommendation 8 – existing EVH process is in place but accepted that there is a need to tighten up on absence management. However it was noted that flexi time is in place which can be used for late arrivals and early departures.

Members discussed the possibility of timescale changes due to CSM's resignation. CE advised that we will not be rushing to find a direct replacement as it is an incredibly diverse role and confirmed that as a result some dates may have to change.

Members advised that many of the actions could be incorporated within the People Strategy Action Plan, including sickness and absenteeism, and that sickness figures should be included in the quarterly reports. CE to discuss with CSM what information should be gathered and presented to the Board.

Members **reviewed** the Internal Audit Reports and **approved** the proposed management responses and timescales Items 4 and 8 recommendations being declined.

ACTION:–

- (i) *Submit management responses to Internal Audits, declining items 4 and 8 of the HR Management Audit.*

11. BIOMASS DISTRICT HEATING, PORTREE

CE provided the report giving information on what is owned by LSHA and what is owned by Angus Biofuels (AB). He advised that the current cost for heating is 18p per kilowatt hour, which is cheap in comparison to electricity and that since AB took over the plant in 2015 there has only been one major outage.

CE advised that the key facts to be considered are:

- Capital Risk as there is inadequate future provision for replacement of pipework.
- Recovery of Capital Investment from Owners, the original billing and customer contract does not provide sinking fund for plant, meter or pipework replacement. This risks tenants subsidising share owners which may carry regulatory risk.
- Risk of System Failure, LSHA is legally the energy supplier and carries the full reputational and operational risk.
- Fire Risk, the risk is very low, but the fire alarm is not connected directly with a call centre.
- LSHA requires a plan for 2035 when the contract with AB ends.

- There are plans to build 250 new homes and other facilities on the land adjacent to the site. Consideration should be given to the possibility of extending or duplicating the district heating system.
- There are changes in the regulatory framework for district heating and LSHA needs to confirm to the Heat Networks (Scotland) Act 2021 (“the 2021 Act”).
- Meter replacement is due and information from Power Circle suggests we could tender for a supply and service package for metering and billing.

Members discussed the unfairness for other tenants who do not receive cheap heating. They also discussed the possibility of Shared Equity (SE) owners paying into some kind of sinking fund which was agreed in principle, however would need to be aware of costs and requirements for SE owners as well as the legal implications before making a decision. They also considered that SE owners may pull out if costs were increased, leading to the biomass being under-utilised. They asked if CE could check with SFHA how others with District Heating Systems deal with this.

Members expressed the need for expertise and the CE to provide an options appraisal and give some clarity to the Board and advised this may be able to be encompassed into the Energy Strategy.

Members **considered** the contents of the report and **noted** the steps being taken to manage operational risk. **Recommended in principal** the recovery of future DH capital costs subject to more information about how it would be implemented and the effect on SE owners. **Delegated** to officers to provide a briefing on the expansion of DH at the Away Day or other appropriate strategic Board meeting.

ACTION:-

- (i) *Information about costs and implementation of recovery of future District Heating capital costs from SE owners to be provided.*
- (ii) *Briefing on expansion of DH to be provided.*

12. **A.O.C.B.**

Recruitment Resources & Financial Implications

DoFCS advised that with the resignation of the current Corporate Services Manager and the pending retirement of the Legal Services Manager; having considered the scope and effectiveness of the roles, and the likelihood of finding suitable cover for either post in their current format, that SMT are looking at restructuring these roles to better suit the needs of the organisation. This will include the introduction of three to four new roles at officer level focussed on:

- Governance and Compliance,
- Human Resources,
- Health & Safety and Fleet Management,
- IT and Corporate support.

Modelling performed indicates that these changes can be implemented within the envelope of the existing salary budgets after identified savings. It was noted that the review of DLO salaries by EVH will have potential consequences which are at this stage unknown.

Members asked if there was enough senior level support and CE confirmed that extra staff will be brought onto SMT and will help SMT move forward in a different way, noting that senior staff will be better supported by the proposed changes.

Members considered the proposal and discussed the need for a Governance Officer, the work currently covered by LSM and although recognising this is an operational issue that the Board needs to be kept informed.

Members **noted** the change in approach and the decision to start the recruitment process for a Governance Officer.

ACTION:-

- (i) *Commence recruitment process for Governance Officer.*

The meeting closed at 12.45pm.

Chairperson

A Snelson