

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, 13 February 2023 at 10.30 am by Zoom/in person**

PRESENT: Mr I Young (In the chair)
Mrs A Sinclair
Ms L Williams
Mr J Watson (via Zoom)
Mr R Nairn (via Zoom)

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

1. APOLOGIES

None.

2. DECLARATIONS OF INTEREST

No declarations of interests were made.

3. MINUTES OF PREVIOUS MEETINGS

The Minutes of AFR Meeting held on 14 November 2022 was provided for information only and had been approved at the Board Meeting on 28 November 2022.

4. PROGRESS REPORT

Item 4 (i) & (ii) The DoFCS advised that there is still some work to be completed working on the debtors and some write offs will be required, this will be complete and write offs put to the Board for approval by 31 March 2023.

ACTION:-

- (i) *DoFCS to continue housekeeping requirements around aged (non-rent) debtors, to be completed by 31 March 2023.*

5. OTHER MATTERS ARISING

There were no other matters arising.

6. QUARTERLY MANAGEMENT ACCOUNTS TO 31 DECEMBER 2022

DoFCS advised that significant impacts to the revenue projections are in part due to the timing of the Biomass development (£100k development income), as there has

been no viable tender. DML continues to work on options to obtain viability and therefore this scheme has been moved back 6 months in the new Financial Plan. There has been less rent income than projected, due to developments running over schedule, with issues which were out with our control.

The loss of projected revenue is over £200k. We are still looking at a deficit at the year end, although we have been able to offset some of this via savings and efficiency measures. We anticipate a deficit in the region of £100k this year.

The DoFCS advised that there has been a sustained increase in arrears over the course of the year, which is not surprising in the current financial climate.

A Member asked about the voids and the CE advised that there are some individual cases which are skewing the figures.

A Member stated that they can understand the rationale as to why arrears are going up and advised that all we can do is encourage as much payment as possible and be understanding of tenants' needs and circumstances, working with them to steer them in the right direction for assistance.

The DoFCS confirmed that the rent team is very focussed and TESM and TA are very active in working to assist tenants. There is also a lot going on in the background as they are working with CSM to see how Corporate Services can assist.

A Member wanted to ensure that Management support was given to those making phone calls regarding arrears as he believes the information given may be harrowing and the language sometimes not good.

The DoFCS advised that the Unity Trust Bank has agreed to split the forthcoming £6m loan into two tranches of £3m. A non-utilisation fee for this is incurred, however it will result in even greater savings in the interest payments.

He advised that the Financial Markets are still fast moving and interest rates have risen again since the report was produced, however the rate of increase it is looking likely to slow down now.

A Member made an observation that there is a lot more amber rating on the accounts which reflects the national and global circumstances and that arrears will likely increase further after the rent rise in April.

In response to a Member's question about the Private Finance Chart (Item 5.3), DoFCS advised that the chart is based on forecast cash flow, spikes are where loans are drawn down, and the plateau where there is a slow down on the development schedule. In planning for drawdowns of private finance, we will aim to avoid periods of excess cash balances, particularly when borrowing rates are high.

Members **noted** the content of the report.

7. **DRAFT FINANCIAL PLAN 2023/2053 AND SUMMARY FINANCIAL PLAN 2023/2053**

The DoFCS advised that this Draft Financial Plan sets out the resources required for the Business Plan, including the Development Plan and Asset Management Strategy in particular the implementation of Fabric First improvements for the worst performing properties.

He advised that General Assumptions have been reviewed by senior staff as part of the planning process, and that we are seeing some good outcomes in terms of strong surpluses from efficiencies gained through adaptations made to our operating model this year.

He advised that we are working through the internal process to take one Handyperson to a secondment Joinery post within the Technical Team, in response to funding uncertainty for the Handyperson service.

The CE advised that NHS are anxious to ensure service continues, and anticipates the new contract being in place by the end of June. If the NHS doesn't come forward with additional funding then we will need to reduce or second staffing.

A Member advised that due to NHS underfunding of the Handyperson Service tenants were subsidising non rent activities and this needs to be reduced.

A Member asked about the Care and Repair funding and if cuts will be required to that service. The DoFCS advised that this post is funded separately as a block grant, the Highland Council will not be increasing this funding, but it won't decrease. A single-person service, the funding covers costs but this will reduce over time with no inflationary increases to funding.

A Member noted that there would potentially be an uplift in the Defined Benefit Pension scheme contributions.

Another Member added that the Employee Contributions and Employer Contributions are also going up. This could be an issue for employees, but the employer needs to have a 2 – 3 month consultation period to discuss this with staff.

A member noted an issue of unfairness as the Defined Benefit Scheme contributions are considerably higher than for those on the Defined Contribution Scheme and added that the Defined Benefit scheme is unsustainable.

The DoFCS advised that we have stopped offering this to new staff, with DML being the last staff member employed who was signed up to it.

A Member thought it had previously been agreed to stop this, with another agreeing that this was supposed to have been stopped over a year ago. The DoFCS advised that the previous review of pension arrangements changed the nature of the Defined Benefit scheme, moving to the 1/80th option. When asked about the need for a formal decision on the pension offer, as a change to the Terms and Conditions, the CE agreed that the Board be presented with an options appraisal. DoFCS added that not offering this to new staff is the right response, but this choice could be reversed if the Board decides otherwise.

The DoFCS advised that he is not concerned about lending margins in the near future and figures are looking good over the time period involved. He advised that Revenue at risk of £190k has been identified, but with a projected surplus of £277k the outcome for 2023/24 is looking positive.

In response to a Member's question the DoFCS advised that the Operating Surplus metric, 2nd line on page 5 is a percentage of total income and gives an idea of the impact of wider role activities.

Staff costs to rental income have reduced significantly; in the short term we can sustain this as with new builds there will be less maintenance in the short-term. Our continued commitment to development, in excess of 20% of existing stock levels, would trigger the Housing Regulator to look at us again in 2023-24.

There may be more uncertainty in achieving project viability. Glenelg is out to tender again, and issues with Planning and Roads are causing hold ups on other sites, with some developments being pushed back another year in the Development Plan.

A Member asked about stress testing and if borrowing was required for Asset Management repairs, DoFCS confirmed that this wouldn't be the case for the first 5 years but would be from years 6 to 14. Stress testing will be completed on the final Plan to be presented in March.

We have received 50% funding from Net Zero for the installation of 30 Heat Pumps. There will be no installation of more heat pumps without grants.

A Member asked about biomass as there is nothing against. The DoFCS advised he didn't want to remove the line at the moment and there are a few others which have been left in, but with no entries at the moment.

A Member advised this appears to be a better outlook than it was a few months ago. The DoFCS confirmed this is the case, also advising we need to be sure we have enough resources over the next two years to deliver on Fabric First and make good on what tenants told us they wanted through the consultation.

DoFCS advised that rent rises in years two and three are projected at CPI+1%, which is less than we anticipated in November when we were suggesting CPI+1.5%. Some benefit is gained through a better understanding of cash flows, ensuring money is available at the right time but not before. There is more refining to be done on the plan, however the DoFCS is not expecting material changes. He noted the requirement to look into DB contribution rates with TPT.

The DoFCS advised that some consultancy budget has been held, but we will have to pay Linda Ewart for her governance review this year. The final changes to the Plan will be brought back to the March AFR Sub-Committee Meeting.

The Chair thanked the DoFCS and the team for the work done in getting the Financial Plan to this stage.

Members **considered** the draft Financial Plan and, in conjunction with Management, **agreed** the acceptable parameters for the completion of the Plan.

ACTION:-

- (i) *DoFCS to review DB contribution rates with TPT.*

8. QUARTERLY RISK REGISTER REPORT TO DECEMBER 2022

The CE advised of the changes which had been made.

A Member asked if Development Risk could be entered as a separate risk. DoFCS advised this is more of a planning issue for what's in the pipeline, but is happy to split it.

A Member asked about the Rent Arrears and DoFCS explained that it is covered in Item 4 with focus on management and recovery.

In response to a Member's question, the DoFCS confirmed that the repairs cost should remain green as the costs have been absorbed with particular repairs being prioritised and cyclical maintenance modified.

Members **reviewed** the Strategic Risk Register and **confirmed** they are content with the entries that exist, **confirmed** that they were content with the prioritisation of the individual risks and **recommended** the Strategic Risk Register to the Board for approval.

ACTION:-

- (i) *Development Risk to be added to the Risk Register as a separate Risk.*

9. STOCK CONDITION INFORMATION IN BUSINESS PLANNING

The CE advised that following conversations with the Regulator, they were looking for assurance from the Board that they had confidence in the Asset Management Strategy and the Financial Plan, despite the Association taking a different approach to stock surveys than recommended in their business planning guidelines.

The CE advised that for reasons outlined in the report, he was satisfied that stock surveys had been carried out effectively and supplied good quality information since 2010. However, he referred to the questions asked by the Regulator and asked the Board to confirm that they were confident in the competence of staff, and the robustness of the figures used in the Financial Plan.

A Member advised that using external consultants is not always reliable.

A Member advised that there had been a degree of jealousy from our peers at the amount of information that LSHA has. Getting a company to come in and look at stock would mean probably each scheme, with some being so small it would be more than 10% of stock. He recommended using a mentoring or audit approach, with an external consultant checking our approach from a best practice perspective, with a limited sample quality assurance check plus shadowing staff with recommendations to make better use of money.

The CE said he would explore that option as part of plans for the next stock survey. In addition he asked if Members were happy for this to be put to the internal auditor

as a replacement audit for EESSH2, which was on hold due to a Scottish Government review.

Members **considered** the contents of the Report and **approved** the use of the Internal Auditor for a deep look into LSHA's stock condition survey approach to provide a robust response to the SHR.

ACTION:–

- (i) *CE to arrange Internal Auditor to investigate LSHA's stock condition survey approach.*
- (ii) *CE to introduce a quality assurance check into the planned stock survey.*

10. GOVERNANCE REVIEW

A Member advised this seemed to be a clear and fair Report.

The CE advised that in hindsight it may have been best to wait until the AGM to appoint new Board Members.

A Member advised that there had been a need at the time to have more finance expertise on the Board, which was why membership was processed hastily.

Members were in agreement that Board Appraisals should be done soon. It was suggested the Chairperson and Vice-Chairperson carry out the appraisals and both were content with this.

A Member advised that getting the appraisals completed soon would allow time to see if a recruitment exercise is required. It was suggested they should be complete by the end of April.

A Member advised that Linda's report says we are not compliant currently on the Board appraisals in 2022-23, and would like this to be sorted before the end of the Financial Year to ensure we are compliant, in time for the AAS later in the year.

The Board Chair advised they will roll forward with the appraisals as soon as they have the updated questions.

Board Members advised that they were not provided with assurance re the Governance Action Plan because the plan was awaiting Board approval.

Members **considered** the content of the report and **confirmed** that it addresses the issues raised.

ACTION:–

- (i) *Board Appraisal questions to be updated and member appraisals to be organised for March.*

11. A.O.C.B.

There was no other business.

The meeting closed at 12.05pm.

Chairperson

Ian H. Young