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# Finance, Audit and Risk Sub Committee

Wednesday, 20th November 2024 9:30 am

Russell Square   |   Finance, Audit and Risk Sub-Committee

## Attendees

#### Attended - Board

#### Jimmy Black (JB), Hazel Farquhar (HF), Craig Irvine (CI), Stuart Storrie (SS) and Ian McDonald (IMCD) in the Chair

#### Attended - Staff

#### Gail Robertson (GR), Chief Executive Officer, Arlene Grant (AG) Director of Finance and Corporate Services, Kevin Lynch (KL) Director of Asset Management, Grant Miller (GM) Finance Manager and Jenni Reid (JR) Finance Officer

## 1.0 Apologies, Conflict of Interests & Notifiable Events

Purpose - For Noting

#### Minute by Jenni Reid

Apologies were received from Linda McDonald.

There were no conflicts of interest or notifiable events to report.

## 2.0 Minutes of the Finance, Audit and Risk Sub Committee held on 14th August 2024

Purpose - For Approval

#### Minute by Jenni Reid

Minutes were approved as a correct record.

IMCD asked for an update regarding the issue of recoding from the June 2024 Quarterly Management Accounts. GM advised that the issue was now resolved, and the Maintenance Manager had confirmed all recoding exercises were up to date and finalised before papers going out.

GR confirmed that all the issues regarding the Lead Tenancies were now fully resolved after paying a final settlement of £5k.

## 3.0 Quarterly Treasury Management Report

Purpose - For Approval

#### Minute by Jenni Reid

AG presented the Quarterly Treasury Management Report advising that the total cash and deposits at 30th September is £5.7m.

AG confirmed that Clydesdale Loans have been repaid so will not appear on the next report and explained that the split between Fixed and Variable borrowing remains at 49/51 which would be discussed further with Peter Freer from Allia shortly.

AG explained that following a review of future development cashflows, £1.1m was withdrawn from the Flagstone deposits and is likely that the Association will have to draw down further from Nationwide before the year end to cover upcoming costs at Dubton Farm which is currently being front funded. AG confirmed that the Whitfield development would remain in subsidy until the end of the financial year.

IMCD asked whether drawing down from Nationwide would compromise Peter’s suggested approach, AG confirmed it would not as Nationwide would be drawn down in smaller amounts rather than all at once.

IMCD asked whether we envisaged any future plans to front fund new developments in the future, GR stated that it would not be ideal. KL explained that during the recent SHIP meeting, Angus Council had suggested RSLs to 100% front fund with zero subsidy and stated that the consensus from RSLs was that this would not be possible.

IMCD asked whether there was any scope to further develop in Dundee, KL explained DCC’s views appeared more relaxed and would be more likely to offer some subsidy, however they do not adopt Section 75 for housing. GR estimated the Association would require £16m in private finance to deliver prospective developments but will know more on 4th December after the Budget has been announced.

SS asked for an update on the Fergus Square site, KL explained that there were recent discussions to develop into 2 4-in-a-block properties with GR adding they were also exploring options to make these more eco-friendly. JB expressed his wishes for the ground floor properties to be highly accessible, KL confirmed there would be scope to investigate this due to positive NPV.

JB explained that there was ongoing consultation regarding the DCC Local Development Plan which stated that there was no current need for further social housing and until this changes, was unlikely to adopt Section 75 for housing.

AG confirmed the changes in the appearance of the Flagstone Deposit appendices were due to an update in the portal and would appear this way going forward.

Members noted and approved the contents of the report.

## 4.0 Treasury Management Fixing Options

Purpose - For Information

#### Minute by Jenni Reid

Peter Freer from Allia presented the Debt Portfolio Hedging Strategy.

Peter highlighted the main points of the report, explaining that although the Association was currently operating out with the Treasury Management Policy (TMP), he expressed no real risk with the current loan agreements within today’s volatile market.

Peter explained the Association would require fixing at least £4.8m to bring the fixed/floating ratio in line with the TMP, the 2 main options being facilities from RBS and Nationwide.

Peter explained the RBS facility allowed the ability to fix but required the full amount of the debt to be fixed for the full term which was not advised. To enable more flexibility, there was an option to enter a Loan Linked ISDA which allows interest rate swaps.

IMCD asked about the legal costs to drawing up the Loan Linked ISDA agreement, Peter estimated around £3.5k, to a maximum of £6k to also update the existing agreement.

Peter explained to fix the Nationwide debt, the Association would have to draw down more funds to reach the required 60/40 split, and suggested the Association have everything ready to act when rates are favourable. Peter suggested speaking to the Association’s lawyers TC Young to establish any current restrictions around banking institutions and the flexibility to enter more complex hedging options.

JB questioned if it was worth changing the TMP rather than using costly Financial Instruments. Peter confirmed that the current TMP rules were sensible and in line with the market.

IMCD asked whether it was advisable to drawdown now or wait, Peter explained that by drawing down now, interest would be charged straightaway so may be more sensible to commit to the rate and amount at a fixed later date although there is a risk that interest rate may drop further by that date.

To conclude, Peter confirmed that the Nationwide option would allow for a shorter fixed term and a smaller sum to be fixed compared to the RBS Loan Linked ISDA option.

AG suggested drawing down the full amount with NatWest and fixing for a short term, whilst also setting up the Loan Linked ISDA with RBS so that the Association is ready to implement this when rates are low.

Members noted and approved the contents of the report.

## 5.0 Quarterly Management Accounts

Purpose - For Approval

#### Minute by Jenni Reid

GM presented the Quarterly Management Accounts summarising the main points to the 30th of September 2024 noting an Actual Opening Surplus of £1.7m, a negative variance of 2.3% and Actual Turnover of £6.3m, a positive variance of 0.7%.

GM explained there was a negative variance of Gross Rents totalling £60k which was due to several long-term voids and several properties having had their EPC ratings switch from a B to a C resulting in lower monthly rent charges.

Voids Loss showed a total of £23k, against the phased budget of £117k. IMCD asked if it should be considered for this budget to be lowered in future, however GM & GR explained that this acted as a cushion for other budgets.

GM explained that the Depreciation negative variance of 15% was partly due to early disposal of assets. Also, the depreciation process recently moved away from spreadsheets and fully onto Homemaster which complicated the budgeting process due to the lack of available reports in Homemaster. GM will explore options to ensure greater accuracy.

Actual Operating Costs showed a positive variance of £121k (3.9%), within salaries this was partly due to the full contingency not being used. IMCD added that it may be useful in future to see Staff Budget Spend against average number of staff which would highlight variances. GM explained the inconsistency in total staff numbers within the report are due to some staff holding dual posts which would count as 2 rather than 1.

CI asked about the financial impact to the Association following the announcement of increased E’ers NI rates in 2024/24, AG explained there would be an estimated £53k increase in costs due to the changes, not only due to the rate increase but also the reduction in threshold.

GM explained the negative variance in the Heat & Light budget was due partly to the number of estimated bills coming in, however SSE were due to fit smart meters so costs would be more accurate going forward.

Repairs & Maintenance showed a projected cost of £45k against the budget of £18.5k, this was largely due to the compliance work over both offices and toilet renovations in Dundee.

GM discussed the negative variances under Office Overheads, £10k was due to the renewal of the photocopier lease, general increase in postage costs which hopefully will decrease with the introduction of the new portal, GR explained that tenants would have to agree to receiving certain mailings electronically before this can be fully rolled out.

IMCD asked about Community Benefits, GM explained amounts are received from contractors based on a percentage of their annual invoices, which the Association currently had £93k to spend. GR explained the Government are not keen on keeping cash, so AHA were now exploring using CB for initiatives instead such as offering workshops. Going forward, GR hoped to communicate with contractors on how the Association wishes them to contribute to the community rather than taking a percentage in cash.

GM reported a positive variance of £52k (13.2%) for Cyclical and Planned Maintenance, which was mainly due to the split of capital and revenue costs for the Maintenance Improvement programme which the budget assumes an 87%/13% split.

GM explained the Reactive & Relet overspend was largely due to increased damp & mould works. Relets showed a positive variance due to the small number of voids, which GR stated was similar across the whole sector.

Stage 3 adaptations were forecasted to be over budget due to the reduced allocation received from the Scottish Government, which would be further discussed in the next agenda item.

Service costs showed a positive variance of £14k (26%), mainly due to lower anticipated uplifts.

Bad Debts showed a positive variance of £34k (29%), IMCD stated that underspends should be anticipated well before year end to utilise elsewhere. GM explained that the Capital Works Manager would be keen to use any underspend on areas such as boiler replacements.

Other Costs were currently underspent by £7k (10.2%) but included a negative variance due to the final settlement of the Lead Tenancies.

Interest Receivable showed a positive variance of £24k (62.1%) due to lower interest rates.

IMCD noted that he was content with the level of reporting.

IMCD asked about the projected out turn of the bottom-line surplus, and GR confirmed there would be discussions going forward on how to deal with any additional surplus, potentially using some to fund the shortfall in adaptations and shorter improvement programmes. IMCD asked if the Association planned to use the balance of the contingency in Staff Costs, GR confirmed there would be staff changes in January which may use some of this up.

Members noted and approved the contents of the report.

## 6.0 Financing Adaptations Report

Purpose - For Decision

#### Minute by Jenni Reid

KL discussed the Financing Adaptations Report, summarising that the Association normally bid for £350k, and approximately £150-£175k was normally received. This year the Association received just £78k which was already spent.

The Association currently have 12 Stage 3 adaptations on hold totalling an estimated £20k.

IMCD explained that if tenants do not receive adaptations, there would be H&S implications and a risk that tenancies would not be sustained, therefore it may be in the best interests of the Association to cover costs. However, by being able to cover these costs, the Scottish Government may offer less funding in future. GR agreed that there was more scope now to cover costs after seeing the Quarter 2 figures.

GR confirmed that separate budget headings would be created to show the split of adaptations covered by the Government, and those covered by AHA.

IMCD asked if there was any scope to pay for a mobile hoist for a child on the adaptations waiting list from the Community Benefits fund, however GR argued that this would benefit just one individual rather than the community as a whole. KL also added that a mobile hoist should perhaps come from NHS funding as it could be considered equipment, rather than an adaptation.

The board agreed to establish adaptations as a budget heading going forward on the premise that the Government may not increase funding in future years. GR agreed in the case that sufficient funding is received from the Government in future years, then the underspend in adaptations may be spent instead on improvements.

GR discussed plans to potentially introduce a handyperson service to implement smaller adaptations which AHA may subsidise.

It was agreed that AHA would fund the additional £97k to have the full £175k to spend on adaptations. GR added that it may be mentioned in the next rent consultation that AHA’s costs have increased as a direct result of these Government cutbacks.

Members noted and approved the recommendation to fund the Adaptations shortfall.

## 7.0 Staffing Report

Purpose - For Approval

#### Minute by Jenni Reid

Members were happy to proceed with meeting after the allocated 2 hours had passed.

AG presented the Staffing Report for noting and any questions.

GM confirmed that the long-term absentee has since returned to work, however there was one other member of staff who has since gone off on long term absence.

SS noted that it would be beneficial in future to read a summary on staff age and gender, IMCD added that staff age was considered in AHA’s Risk Register and GR also added that a summary on staffing was included in the Executive Summary of the Strategic Plan.

Members noted and approved the contents of the Staffing Report.

## 8.0 Internal Audit - Factoring

Purpose - For Approval

#### Minute by Jenni Reid

IMCD noted the findings within the report and was happy with the management responses to the recommendations.

GR added that AHA’s new solicitors were very knowledgeable in factoring for RSLs so hoped that this would benefit the Association in terms of advice and assistance going forward.

Members noted and approved the contents of the report.

## 9.0 Internal Audit- Payments and Payroll

Purpose - For Approval

#### Minute by Jenni Reid

IMCD noted this was a very reasonable report which received the highest level of assurance.

JB commended the staff for their assistance with the internal audits.

## Members noted and approved the report.

## 10.0 Quarterly Risk Register Review

Purpose - For Information

#### Minute by Jenni Reid

## GR presented the Quarterly Risk Register Review.

## GR explained that although several risk ratings had been reduced and removed, they would be kept under review for any future fluctuations.

GR advised that there would be a training session centred on Risk Management for the upcoming Board Away Day.

## Members noted and approved the contents of the report.

## 11.0 Departmental Workplan

Purpose – For Noting

#### Minute by Jenni Reid

AG presented the workplan for noting and any questions.

Members noted the advantages of the Cyber Security Training recently rolled out by Shackleton.

AG expressed disappointment that the National Fraud Initiative was not able to go ahead this year due to an issue in data processing by the Cabinet Office but hoped that it would be possible to take part next year.

Members noted and approved the report.

## 12.0 Policy Review - Attendance and Absence Management

Purpose - For Approval

#### Minute by Jenni Reid

AG presented the Attendance and Absence Management Policy for noting and any questions.

JB noted some inconsistencies in ‘You/I’ narratives and typos, AG agreed to take notes on board and tidy it up.

SS asked if a section about carers leave would be added, AG confirmed this may be a separate policy and will draft a copy.

The committee recommended that this policy be circulated to staff for consultation and brought back to a subsequent meeting for final approval.

## 13.0 AOB

Purpose - For Information

#### Minute by Jenni Reid

GR advised that a paper would be going to the Board Away Day regarding the rent consultation.

[REDACTED – CONFIDENTIAL INFORMATION]

## 14.0 Date of Next Meeting

Purpose - For Information

#### Minute by Jenni Reid

## Wednesday 19th February 2025 at 9.30am.

## The meeting closed at 12:09pm with thanks.