

**Finance, Audit and Risk Sub Committee**

Wednesday, 22nd November 2023 9:30 am

Russell Square | Finance, Audit and Risk Sub-Committee

**1.0 Training - Reserves** Purpose - For Information

**Minute** by Gail Robertson

Linda McDonald Stuart Storrie Jimmy Black Ian McDonald Craig Irvine Isobel McGarrol

Observer: Cheryl Smith

In Attendance: Gail Robertson, Arlene Grant and Grant Miller attended on Teams Stuart Beattie from CT presented a training session for the Board on Reserves. The presentation is saved in the Resources section of (DT)

AHA do not currently have a reserves statement in their Statutory Accounts.. GR and AG to agree a statement for inclusion in the Statutory Accounts in 2024/25. CT circulated some examples used by other RSL's.

Important for Board to be aware of the breakdown of reserves and how that is reflected in the financial statements to the accounts. There is no perfect or ideal level of reserves but Board needs to ensure they reflect the long term

Augus Housing Association need to ensure it has a Reserves Policy and a consistent a narrative detailing within the financial statements explaining why they hold reserves and what they are used for. Charities must have a policy however this does not apply to the Registered Social Landlord (RSL ) Statement of Recommended Practice (SORP). CT seeing more RSL's wanting to explain these within the accounts. AHA in 22/23 had a large revenue reserve c(£20m) however this does not represent cash or free reserves of AHA.

Free reserves are cash less restricted reserves (donations, grants, monies ringfenced) less any designated (e.g., infrastructure) and then less fixed assets. Majority of revenue reserves for RSL are represented by the investment we have put into our stock. If accounts were to show free reserves, we would be showing a negative position. This figure is not used as a benchmark and not used by the SHR to review risk. The only way to reduce this position is to sell off assets. The issue of going concern does not look at the free reserves, only the surplus. Negative surpluses would show high operational costs and be of concern. Auditors are looking at 5-year forecast surpluses and cash and do we have enough cash to meet operational expenses, capital spend, cash to service loans?

CT use the free reserves as a check during the audit however it is unlikely this is looked at in much detail elsewhere. CT look at the Statement of Income and Expenditure, the Balance Sheet and Statement of Cashflow. The Cashflow statement looks at movement of cash - how has it been earned, operational expenditure, take off purchase of assets, payments of loans. CT looking at whether cash is adding value or if it's being eroded. Accounts narrative should educate the reader on what the cash is for e.g. future developments, big component spends, servicing loans, specific projects. It will now set out how we will spend cash and if there is a reserve at a minimum to cover operational costs for 3-6 months of operating costs.

SHR is looking for us to maintain our cash position and continue to accrue surpluses that allow financial covenants to be met. CT noted the importance of stress testing forecasts/scenario planning on the business plan to review surpluses and reserves as this is a key area for auditors.

GR advised that the detail on the surpluses and cashflow will be more of a focus in the next set of accounts with CT given the new template and a statement covering reserves will be included. GR will work to have a short factsheet covering reserves which can be used for training for staff and Board.

The members of the FAR noted that the session had been useful in understanding the reserves. CT have offered to provide training on other areas including the financial statements and the Board noted the importance of communicating financial information. This would include the financial terminology.

IMcD noted it was good to have the independent review presented by the auditors rather than in house.

IMcG asked why this could not be explained more in the accounts. It was agreed that more detailed notes within the accounts would be useful.

IMcD thanked Stuart Beattie for his presentation on Board Reserves.

**1.0 Apologies, Conflict of Interests & Notifiable Events** Purpose - For Noting

**Minute** by Gail Robertson

The FAR meeting commenced at 10.10am.

Apologies were received from Hazel Farquhar. There were on conflicts of interest noted. There were no notifiable events noted.

SS asked about the absence of actions arising from the FAR meeting held on 31August 2023 and GR noted this was reported at the October Board but were available on the agenda of the Board meeting.

**2.0 Minutes of the Finance, Audit and Risk Sub Committee held on 31/08/2023**

Purpose - For Noting

**Minute** by Gail Robertson

The minute of this meeting was approved at the October Board meeting. At Item 5 - Audit Letter, IMcD asked about the process for the work with CT for this coming year and a review with CT and the Finance Team (Grant and Arlene). GR confirmed that meeting dates for 24 had been shared with them and they are now receiving minutes of the Board and FAR meetings. Arlene to meet with CT to arrange meeting to discuss the 2023/24audit process and set dates for the year end audit.IMcD noted the issue raised at the November Service Delivery sub around members visiting voids. GR advised to let her know if anyone wants to visit voids and this will be arranged.

**4.00 Quarterly Treasury Management Report** Purpose - For Approval

**Minute** by Gail Robertson

AG advised healthy cash position at 30 September 2023 of £7.6m. The Development is complete at Glenview and onsite at Dubton and we have not drawn down any of the deposits over the last 6 months. Delay in getting HAG approval has meant we haven't drawn down any HAG for new developments. In terms of the further borrowing from Nationwide and RBS this is now completed. Our RBS loans due to mature in 2028 were refinanced first. New loans mean we can fix facility D or E in the first 2 years. Facility E has the outstanding balances from the old loans. Facility D has 25-year term and base rates at 5.25% at this stage AHA would be looking at c7% rate so does not make sense to fix these at the moment. AG has asked Peter Freer to provide something for us to consider. Not fixing the variable rate still leaves us with fixed at 51% and 49% variable (max of 40% variable noted within the policy). IMcD asked what was stopping us from resolving the fixing this and it was that setting down this would not make sense at the time and that this understanding should be minuted. IMcD noted we now had money in the holding account of c£88k in Flagstone for re-investment. AG identified ones that weren't performing well or were due to their term and AG will add these to the holding account. This will require AG and GR to review development programme and if they can, they will go back on deposit. Some delays and movements in the development programme may mean we can further invest in short term deposits. Whitfield Drive phase 1 is likely to be the only scheme that will require spend before the end of the financial year however the initial expenditure will be covered by subsidy, and we already have approval for this scheme.

JB asked about the interest on the holding account. AG advised that this account does not accrue interest. JB asked about the dates on the report and GR advised this is the dates that the deposits come to the term. AG is constantly looking at options for better returns and moving money.

**5.0 Quarterly Management Accounts** Purpose - For Approval

**Minute** by Gail Robertson

GM presented the Q2 accounts and noted the operating surplus of £821,184 which is a £392,500 positive variance from the budget. Turnover of £5,927,329 with cash out flow of £590,426 and the value of stock has risen by £1,462,245.

HAG and small grant received amounting to £527,342 and £29,893 respectively. GM ran some projections and expected positive variance of £516,000. A large amount of this variance comes from low level of voids and bad debts and some additional income from interest.Chris King expects one off improvements budget to settle but more of a budget should be set aside. More work has been done to forecast this budget and we expect budgeting to be more accurate in future.

Small variance in rents and services - due to changes in rents for fuel switches and rents for new build income timing.

Void loss is still very low set a 2% of gross annual charge. Other income includes Stage 3 adaptations. Management costs are on track however there a negative variance for heat and light and we expect the budget will be significantly overspend by year end. There have been rising insurance costs which has resulted in a negative variance. We expect phone costs to be halved from February onwards as we have just completed a tender for a new system for new ones. Legal Fees are overspent with extra costs for arranging loans for the Nationwide and RBS lending.

The Ormiston lounge costs are overspent for heating and light in line with the other heat and light budgets.

The Cyclical and Planned Maintenance budget showing a large positive variance. This is due to changes in approach to painter work contract. In advance of the meeting, IMcD had asked if we expected to be able to bring forward other works to reduce the underspend based on the end of year projections. GR asked the Capital Works Manager how this underspend could be used and there is a plan to complete additional kitchen at bathroom works at Barngreen and Mount Zion Brae before year end. The Capital Works Manager has based this on a quarter of a million spend. It was agreed that should the Jan indication be that this spend would not impact covenants, approval was given for this to be supported up to around £300k. GM advised that there is extra room within the voids and bad debts however reactive and relet budgets are overspent. IMcD advised that there is a frustration in having a projected operating surplus and having additional underspend at the 6 month point in the year with the concern that work, and expenditure cannot be brought forward in time for year end. GR advised that the Capital Works Manager is confident that this spend could be realised within the year.

Reactive and Relet Budget - The Maintenance Manager thinks there is recoding to be done which will move the spend but it will be reallocated elsewhere. Asset Management think that additional budget headings needed to be set up next quarter with the Finance Officer ready to do the recoding. The voids budget is overspend however the number of voids is under projected number (62 actual against estimated 90 at end of Q2) and this is being reflected in the high average void costs. JB asked for a report on void loss however GM advised that some of these span two financial years and do not match with the financial reports so the format may be difficult.

Service costs - coding the service costs is an issue which is reflected in the positive variance. Bad debts are set at 2% of gross annual charge. IMcD noted an error in this repot - increase in bad debt should read from 50% to 100%. Level of debt written off is still historically low.

Stage 3 adaptations budget is expected to level out.

The Asset Managers have been though capital improvements programme covered in Appendix 7 with note on projected spend. Proposals in place with the Director of Asset Management to arrange contracts annually by Oct to ensure deliverable during the year.

SS asked about EESSH2 work and lack of spend and noted the lack of EESSH2 guidance. GR advised that the SHR had indicated that very few RSL's were spending EESSH2 budgets but that they understood that this would only happen when there was certainty on what was required following the final guidance being published by the SG. SS asked if there was any work that could be done easily. GM advised that there is an exercise to recode all the EPC work done this year to the EESSH2 budget.

IMcD asked on appendix 1, why the Cyclical and Reactive budgets were less than 50% after 6 months. GM advised that this was done on the basis of a conversation with the previous DAM and the expectation that more contract work is delivered towards the end of the year. SS asked for a footnote to provide some explanation. The phasing will be reviewed as part of the budget setting. GM and AG confirmed there is no phasing of the contingency of the staff costs for one off payments. The cost of living uplift will be covered in the third quarter accounts.

SS asked if we had conducted a post covid budget review on overheads for items such as mileage etc. GR advised that this had been changed.

SS asked about the Housing Emergency that had declared. JB advised that Labour were putting forward a motion relating to this in the Scottish Parliament today. There is a concern that as costs impact on the ability to meet the 110,000, that this money may be diverted elsewhere and the need for underspend to be redirected to meeting other targets such as net zero and EESSH2.

SS asked if it would be an opportunity to pick up new build as we continue to be a developing HA and GR said that might but noted the consideration of taking on higher debt in lending and the HAG not going as far.

JB asked about Cashflow on appendix 1 Q6 - Adjustments for debtors/creditors. movements. GM advised this shows the movement of debtors and creditor on the balance sheet. IMcD asked for a bit of narrative from next set of accounts with projections. SS feels that working capital would be a good one for a bite size training session.

Appendix 7 indicated around £3m budget and it is expected this will be spent but may be different projects depending on what can go on site and when.

Arrears Analysis - Increase in current and former arrears and following CT recommendation we have accounted for this change in provision. Recharges showing decrease as this is in part due to current tenants becoming ex tenants.

**9.0 Arrears write offs > £250** Purpose - For Approval

**Minute** by Gail Robertson

Discussion about highest case and situation with abandonments. AG advised this property required £4,000 of redecoration before it could be re-let. Additional costs likely to be in part for clearing and cleaning. IMcD asked about the end date of the tenancy and that there were arrears at the time. GR advised that with that balance we would expect legal action but at the time there would have been restrictions under the Tenant Protection legislation. Write offs approved. IMcD asked if this list was comprehensive, GR advised that it was and that this is done twice a year and coming up to ARC time so that write offs can be included in the arrears figure provided to the SHR.

**6.0 SHAPS Annual Return** Purpose - For Information

**Minute** by Gail Robertson

AG advised that SHAPS is the AHA pension scheme and we need to complete it every year. AHA left DB scheme 3 years ago but still required to complete. Figures are populated from annual accounts and forecasts to give annual risk rating and we are still low for this year. SS asked if there could be a summary to advise why this is going to the Board and any areas that need reviewed by the FAR. GR asked if the Board wanted to see this in future as this is the first year this has been provided. JB and IMcD noted that some of this info is useful, and it was agreed to keep on agenda with a short executive summary paper.

JB asked about the A rated properties and if it was Auchmithie. GR advised that she understood it was the new builds at Longhaugh. JB noted this was hard to achieve and that it was excellent that AHA had these. The FAR discussed the cost of refurbishing tenement flats to EESSH2 standard, district heating systems in Dundee and Edinburgh and regeneration of city and town centers.

**7.0 Staffing Report** Purpose - For Approval

**Minute** by Gail Robertson

AG presented the staffing report and had no issues to highlight. IMcD noted that only one member of staff who was off on long term leave had yet to complete the mandatory training. CI noted a concern regarding the number of staff over 55. GR advised that this is on the risk register and SMT are aware when doing recruitment and succession planning within their departments, particularly at senior management and Officer level. The FAR commended the format of the report and GR to pass this on to the Business Support Analyst.

[REDACTED – CONFIDENTIAL INFORMATION]

**Date of Next Meeting** Purpose - For Information

**Minute** by Gail Robertson

GR advised that the next Board was on the 13th of December and that the Corporate Services Officer had been asked to add the dates to DT for the meetings next year.

GR thanked Arlene and Grant for attending despite being off sick. The meeting concluded at 11.35am.