

MINUTES OF THE FINANCE, AUDIT & CORPORATE GOVERNANCE COMMITTEE MEETING OF 17th FEBRUARY 2022 (HELD VIA MS TEAMS)

 **Present**: 1. Susan Mackay

2. Graham Collie

3. Margaret Baxter

 4. Tom Brown

 5. Aileen Crichton

**In Attendance:** Anne Smith, Director of Finance & Corporate Services / Acting Chief Executive

 Neil Harrison, Finance Officer

 Gillian Callaghan, Azets (item 6.0 only)

1. **RECORDING OF MEETING**

 ***RESOLUTION: Committee approved that the meeting be recorded***.

The Convenor advised that Agenda Item 6.0 would be taken first.

**6.0** **INTERNAL AUDIT REPORTS** **(Reports from Gill Callaghan, Azets) FOR APPROVAL**

 Susan Mackay welcomed Gillian Callaghan from Azets to the meeting.

* 1. EESSH

Gillian Callaghan, Azets summarised the key aspects of the Committee report as follows:

Azets had compiled a report on how the Association was complying with EESSH and the overall conclusion was that the Association was making very good progress in making arrangements to comply with the standards, and the asset management reporting processes reflect good practice and are well designed.

There were 3 areas that were identified for improvement:

* OVHA should introduce a rolling programme of checks to ensure there is no room for properties to be missed;
* There is a need to evidence secondary checks of EPC data and ensure the EPC Master Spreadsheet is version controlled;
* Access to the EPC Master Spreadsheet should be restricted to ensure the integrity of the data contained.
	1. Financial Regulations and Procedures

Gillian Callaghan, Azets summarised the key aspects of the Committee report as follows:

Azets had performed a financial systems health check and for this Azets looked at how the Association managed the financial ledger and performed month end reconciliations.

The conclusion was that the Association has robust processes for managing its financial ledger and key month end reconciliations are operating effectively.

There were clear areas of good practice in that the Association do maintain a clear delegated list of authority. Access to the system was set up and restricted correctly, and there were robust back up processes in place. The samples of journals showed that there was adequate segregation of duties in that process as well.

There was 1 area that was identified for improvement:

* Carrying out a full disaster recovery test and system restore on an annual basis and clearly documented lessons learned to inform relevant procedures and future testing.

*COMMITTEE COMMENTS/DISCUSSION: Tom Brown wondered if Covid might not have been a factor in a test not being done since January 2020.*

The Acting Chief Executive replied that could have been a reason, but prior to the January 2020 test, it was last carried out in January 2017, so it hadn’t been done regularly. Now that we have had the report, we will ensure that testing is built into the work plan, and we will aim to have this carried out every 12/18 months going forward.

The Finance Officer added that we do have six monthly pro-active visits from our IT support, TSG where they come into the office and test our servers and check everything is running properly. Part of that check is that they do a mini restore of some of the files, so although we haven’t carried out a full restore since January 2020, there is a check on a six-monthly basis.

*Susan Mackay thanked Gillian for presenting the reports.*

***RESOLUTION: The Internal Audit Reports were approved by Committee.***

*Gillian Callaghan left the meeting at this point.*

1. **APOLOGIES**

 No apologies were received.

1. **DECLARATIONS OF INTEREST**

 There were no declarations of interest.

1. **MINUTES OF FINANCE, AUDIT & CORPORATE GOVERNANCE COMMITTEE MEETING OF 20TH JANUARY 2022**

 ***RESOLUTION: The Minutes of the previous meeting of 20th January 2022 were approved as a true and accurate record on a motion from Tom Brown, seconded by Graham Collie.***

1. **MATTERS ARISING**
	1. Risk Management Training

 The Acting Chief Executive advised Committee that Gillian Callaghan from Azets had carried out the training with the Acting Chief Executive, Housing Services Manager and Property Services Manager on 28th January 2022. 0The training was excellent and some changes to the Risk Management reporting will be proposed for 2022/23 and thereafter.

5.2 Internal Audit Tender

 The Acting Chief Executive advised Committee that in relation to the audit that is ongoing, 3 responses were received, and we are a bit behind the agreed schedule. Susan Mackay (along with the Acting Chief Executive and Finance Officer) will score the tenders. The Acting Chief Executive will send the scoring template and copies of the 3 tenders at some point next week.

After Graham’s colleague had gone through the tender documents she suggested there shouldn’t be an interviews, unless 2 tenders were very close or the same, as the quality/price scoring should provide a preferred tenderer. The Acting Chief Executive was not planning on carrying out interviews on the basis of this advice.

1. **2ND DRAFT BUDGET 2022/23**

The Finance Officer summarised the key aspects of the Committee report and noted the following changes since the last draft:

* December Management Accounts figures for the roll forward of the opening balance sheet.
* There have been a few changes particularly around planned maintenance as the Property Services Manager had made several amendments. In the report some items have come out and some have been added. There has been an overall increase of around £55K.
* £20K increase on consultancy fees. Asbestos and legionella testing had increased by around £9K and £6K respectively.
* Service costs have increased by around £7K as we had to go out to tender to replace the current cleaning contractor.
* The major item on the capital replacements was the increase on the boiler contract. This was to cover potential pipework and radiator upgrades that may be required. Window replacements scheduled for 21/22 have now had to be moved into 22/23.
* Rent increase has been changed from 4.2% on the first budget to the 3.95% increase approved by the Board.
* Salary costs are estimated at 3.25% as the Unite and EVH negotiations are still ongoing.

Although not noted in the report, since we have completed the second draft of the budget, we have received the new insurance premium for the housing properties. In the second draft we had put in an estimate of £100K, as suggested by our brokers. Unfortunately, this has now come in at £127K. As it is a significant increase, we are proposing to put a third draft budget to the Board of Management meeting due to take place on 24th February 2022.

The Acting Chief Executive added that we knew that the insurance premium was going to increase as our claims had substantially increased in the last two years.

***RESOLUTION: Recognising the change around the insurance premiums, the 2nd Draft Budget 2022/23 was recommended to the Board of Management by the Committee.***

1. **Q3 PERFORMANCE MANAGEMENT REPORTS**

The Acting Chief Executive summarised the key aspects of the Committee report as follows:

* KPIs mainly on track for the year
* Operational indicators, although not meeting target for the quarter should again be mainly on track for the year end
* Loan covenants met comfortably.

***RESOLUTION: The Q3 Performance Management Reports were approved by Committee.***

1. **Q3 MANAGEMENT ACCOUNTS**

The Finance Officer advised that the Management Accounts were for information as they had already been approved by the Board of Management.

***RESOLUTION: The Q3 Management Accounts were noted by the Committee.***

**10.0 Q3 DEPARTMENTAL PLAN REVIEW**

The Acting Chief Executive summarised the key aspects of the Committee report as follows:

* All tasks for the year were completed in Q1.
* Q2, we deferred the rent setting process and agreed to defer external audit services for a couple of years. The SDM purchase ledger investigation has also been deferred.
* Q3 all tasks were completed with exception of the Acting Chief Executive and the Finance Officer attending the finance conference as it was held in person at Crieff Hydro this year and they felt that they were not keen to attend that due to Covid at the time.
* Business Continuity Plan is still in line to be completed by end of March 2022.

***RESOLUTION: The revised Q3 Departmental Plan was approved by Committee.***

1. **CORPORATE PROCUREMENT POLICY REVIEW**

The Acting Chief Executive updated the Committee:

This policy review had been deferred from last month and the review due in January 2021 had also been deferred pending Scottish Government changes following Brexit. The Acting Chief Executive and the Property Services Manager had been through the Corporate Procurement Policy in detail with the changes being summarised in Section 6 of the report.

The acting Chief Executive highlighted that on Page 10 the paragraph commencing “These thresholds are identical to the financial thresholds included in the Association’s Financial Regulations………” should have been deleted and would be deleted in the approved version.

 This would leave limits at £10,000 for accepting tenders for the Property Service Manager, Housing Services Manager and Director of Finance and Corporate Services, with the Chief Executive able to approve tenders up to £250,000.

*COMMITTEE COMMENTS/DISCUSSION: Graham Collie had read the revised policy, and he felt that everything had been captured that required to be and it was robust, and he didn’t think it was necessary to pass it to his colleague for further review.*

The Acting Chief Executive felt comfortable with it. It had not been reviewed last January 2021, due to the Scottish Government advice not being out at that point, so the Acting Chief Executive felt it was important to get it out to staff so that there is an up-to-date policy to work with.

***RESOLUTION: The revised Corporate Procurement Policy was recommended to the Board of Management.***

1. **BANK OF SCOTLAND LOAN DOCUMENTATION AND STANDARD SECURITY REPORT**

The Acting Chief Executive updated the Committee that we now had a final version of the draft loan agreement and that there had not been any changes since this draft. The loan agreement has been reviewed by Harper Macleod and deemed acceptable. She summarised the key terms of the loan which were set out in section 5.1 of the report.

* Loan of £2.2M to be repaid over 25 years
* Security over 33 properties at Ash Grove and a further 10 properties at Connell Court/Wardlaw Way.
* Interest rates variable but can be fixed on drawdown or at any future point

The question of whether to fix the loan or not was discussed and the Acting Chief Executive drew attention to Appendix 3 provided by Bank of Scotland Treasury Team.

Tom Brown had also requested an additional sensitivity analysis attached at Appendix 5.

The acting Chief Executive further advised that an issue with the securities paperwork had arisen due to completion certificates for 7 of the properties at Connelly Court/Wardlaw Way not being on file – copies have been ordered from Fife Council and that this could take up to 20 days.

*COMMITTEE COMMENTS/DISCUSSION: Tom Brown enquired whether there was any possibility of substituting those Wardlaw Way properties and wondered if there were any strings that we could pull anywhere to fast track.*

The Acting Chief Executive advised that we could do, but there has been quite a lot of legal work already done on them. So, we would have to start from scratch with that process again which would not be practical.

Regarding fast-tracking, the Acting Chief Executive will enquire within the Association to check if anyone has a contact and a number that we can try to speak to someone in the planning department at Fife Council in relation to this.

*COMMITTEE COMMENTS/DISCUSSION: Graham Collie advised that he was ex Fife Council, but he would enquire with one of his ex-colleagues who still works with the Council to see if he could recommend anyone and if he does, Graham will pass on the details.*

*COMMITTEE COMMENTS/DISCUSSION: Tom wondered if it may also be worth a note from our Chairperson to the CEO of the Council. The Chairperson was happy to do that.*

The Acting Chief Executive advised that she would establish the correct contact and pass these on to the Chairperson.

*COMMITTEE COMMENTS/DISCUSSION: In terms of the decision about fixing rates, Graham Collie wondered if the* Bank of *England would realistically increase them again.*

The Acting Chief Executive advised there is a possibility that it could happen, and that it was in the Association’s interest to fix as quickly as possible if fixing was the decision.

*COMMITTEE COMMENTS/DISCUSSION: Margaret Baxter enquired whether we could fix it for five years and then review it again after the five years.*

The Acting Chief Executive advised that was possible – we can request a fix at any point under the terms of the loan.

Now, the longer-term rates are cheaper than the shorter-term rates. So, it would make sense to fix for a longer period rather than a shorter one.

*COMMITTEE COMMENTS/DISCUSSION: Susan Mackay enquired in relation to the paper that the other loans are fixed until 2032, so if we were to fix now for twenty-five years, which would be everything fixed just now until 2032.*

The Acting Chief Executive advised that there are three parts of the loan that are fixed. The first one comes is fixed until 2032 and the others are a couple of years after that.

*COMMITTEE COMMENTS/DISCUSSION: Susan Mackay enquired whether the Committee had any thoughts or views on the length of term of fixing if we were to go down that route.*

*COMMITTEE COMMENTS/DISCUSSION: Tom Brown noted that the Sensitivity Analysis confirmed to him the difference over the whole life of the loan is marginal if you factor in a couple of increases in base rate now. He thinks that there is a high likelihood of the base rate going up soon, given the rate of inflation presently. His thoughts were that the Sensitivity Analysis more accurately reflects what is going to happen, so given the difference are marginal, there is more surety in the twenty-five-year fix and takes away the uncertainty for very little difference for the life of the loan. Tom’s thoughts were that there might be quite a few years of increasing interest rates before things stabilise and even then, there is no surety.*

***RESOLUTION: The Committee agreed with the full twenty-five-year fix and the Bank of Scotland Loan Documentation and Standard Security Report was recommended to the Board of Management.***

1. **COMMITTEE ATTENDANCE 2021/22**

 ***RESOLUTION: The Committee Attendance of 80% was noted.***

1. **A.O.C.B.**
	1. Recruitment of Temporary Finance Manager

The Acting Chief Executive updated Committee that no candidates had been identified so far. EVH would be speaking to one more potential candidate next week.

 There was no other business and the meeting concluded at 6.50pm

1. **DATE OF NEXT MEETING:**  **To be agreed**

**Anne Smith**

**18th February 2022**

**Signed ……………………………………… (Convenor) Date …………......**