MINUTES OF THE AUDIT SUB-COMMITTEE MEETING HELD ON TUESDAY, 15 MAY 2018 AT 7 PM AT 53 BALLINDALLOCH DRIVE, GLASGOW

PRESENT	**IN ATTENDANCE**
Mrs A Irving	Mr A Benson (Director)
Mr A Scott	Mr D McPhail (Finance Manager)
Mrs R Tinney	Mrs G McGuinness (Estates Admin)
Mr N Halls	
Mr John O'Donnell	
Councillor McDougall	

1a. APOLOGIES FOR ABSENCE

No apologies noted.

1b. DECLARATION OF INTEREST

There were no declarations of interest tendered during the meeting.

1c. RELEVANT BUSINESS ITEMS TO BE ADDED TO THE AGENDA

No new items to be added to the agenda.

2. MINUTES OF THE AUDIT SUB-COMMITTEE – 21 FEBRUARY

The minutes of the Audit Sub-Committee held on Tuesday, 21st February 2018 was proposed for adoption by Mrs R Tinney, seconded by Mr N.Halls, and unanimously agreed by the Audit Sub-Committee.

3. MATTERS ARISING – 21 FEBRUARY 2018

No matters arising.

4. REVIEW OF RISK MANAGEMENT STRATEGY

The Director explained that the Risk Management strategy is currently being reviewed by the Management Team. Each function has covered the issues in their functional plans, however some risks overarch and some are organisational and do not just apply to a specific function. A brief discussion took place in relation to how the current strategy looks and how it focuses on "what could go wrong" rather than focusing on what the association does well. This is considered to be a more pertinent review of risk management rather than focussing on negative outcomes only. There are three major organisational risks that the association will include in the strategy, Brexit, Universal Credit and Regulation changes e.g. GDPR.
Committee agreed to have this as an agenda item in the August meeting as the Management Team are currently reviewing the Risk Management Strategy to recognise organisational risks and individual function risks would be updated in line with this.

5. INTERNAL AUDIT STRATEGY

As agreed at the recent committee meeting a briefing session will be held on Tuesday 5 June 2018 in order to focus on reviewing the Association's Internal Audit Strategy. Thereafter, updates will be presented quarterly at future Audit & Risk Sub-Committee meetings.

6. FINANCE REPORT – YEAR END

a) Management Accounts - Quarter Ended 31 March 2018

The Finance Manager addressed the meeting, referring to the previously circulated report, for noting by the Audit Sub-Committee. The Finance Manager proceeded, by providing an overview of the Statement of Financial Position (SOFP) as at 31 March 2018. Opening balances reflected the final audited accounts for 2017 and the movement reflects the surplus in the period (£164,561). Cash in hand decreased again due to continued high spend on component replacement and re-investment, increased reactive maintenance costs and accelerated loan debt repayment to Clydesdale Bank limited. There was a further fall in Q4 to £1.465m from £1.974m in Q3 (£590k). This included the settlement to RBS to redeem their facility for £346,280. Although this is a non-recurring debt position overall cash balances have fallen by £1.456m (£2.921m) in the year, and with high Q1 expense for Insurance premiums to be paid this month the new borrowing strategy being discussed needs to be progressed to replenish cash resources and to provide further funding for all categories of maintenance spend that cannot be sustained from cash flow at the present levels. New Gearing Calculation 33.78% (38.91%) is again slightly lower due to reduced borrowings and is acceptable at this level. This level of gearing and our existing very low debt per unit (£7,396) at present does place us in a strong position when considering new borrowing and should still prove favourable when proceeding to new funding.

Rent receivable and Turnover is on target overall. Void losses are above 1% budget at 1.36% having increased in Q4. Operating costs are again ahead of budget, and compared to last quarter at 92.42% against 91.67%. This remains high against 86.47% for the same period last year. Staff Admin Salaries are slightly over budget due to increased TOIL payments, staff increments and staff budgets, but did reduce in Q4. Overheads are ahead of budget mainly due to settlement of the outstanding utility costs at Sannox Gardens of £45k, Office Repairs and Services and Fees. Housing Management is impacted by a higher Insurance share, legal fees and additional CCTV. Reactive Maintenance still remains the biggest overspend and is significantly over budget for the year. This is impacted by external factoring charges, recharges to or not to owners and a possible reduction for an Insurance works. However this remains the single and most significant area for further cost controls and is historically our largest overspend. Expenditure increased by £57k compared to Q3. Planned/Cyclical spend is below budget. No Investment spend was planned but capital spend will apply with expenditure on repairs. However this is still not being reflected in any reduced reactive spend that could reasonably be expected. This level of spending is contributing largely to the reduced cash position as noted.

Stage 3 works are fully funded and therefore neutral with £60k being received in Q4.

Bad Debts are primarily deceased former tenants and those agreed for transfer at previous meetings. The provision has been partly used (£71k) to hold this at budgeted levels and this will be further updated at the year end when considering provision arrangements at annual audit.

SOCI by Period – This shows the significant movements between Q3 and Q4. Voids loss increased by £9,937 in the quarter to be over budget at 1.36% of rent due. Overall income increased by £12.1k due to the Stage 3 grant being paid, but overall costs increased by £85k. The most significant cost reductions in the quarter are in Staff Admin (£36k), Housing Services (£17.7k) and Planned Maintenance (£57k) compared to last quarter. Overheads increased by £42k mainly due to settlement of the utility costs at Sannox Gardens. Reactive Maintenance rose again by £57k and is still the biggest over-spend. Planned (Cyclical) spend reduced by £57k. Stage 2 expense was matched by Stage 3 grant income.

The summary shows a weaker outturn compared to Q3 but does evidence a surplus for the quarter and an increased surplus overall, but behind budget. This is confirmed by the interest cover covenant improving from 212% to 275% against the CBL setting of 125%. However, this is impacted by amendments made to lower interest payable to reflect an overstated interest charge in audited accounts last year.

The spend to date for Planned Investment is shown as £986k, this is capital expenditure expended on component replacement and property improvements, including works team salaries, materials and overheads. No budget was set as we are now in the repayment phase of the £3m accelerated programme. However, whilst this does not reflect in covenant outturns it does have a material impact on cash flow. Loan balances have reduced to £12.388m at year end from £13.678m at the start of the year with £1,290k repaid to date.

b) <u>Covenant Compliance – Quarter Ended 31 March 2018</u>

It was noted that the loan covenants are being met, and that the Association is fully compliant. Interest Cover compliance at 275% as at March year end (212% as at December) was evidenced against a covenant of 125%. It was noted that final covenant compliance is based on annual audited accounts and that this will vary. Covenants are monitored and reported on quarterly, but are only tested annually. Asset Cover was evidenced at 271% against a covenant of 110% prior to new Valuation.

c) <u>Treasury Management Report</u>

One month LIBOR has increased in line with the recent Bank of England interest rate rise of 0.25% to 0.50% to give a new gross rate of 1.925% for our SST borrowing and 2.35% for new borrowing. Variable balances with Clydesdale Bank now total £4,591,708 (£4,773,556). The impact of the increase is £11.5k per annum against the current variable balances. However given that the association are on a negotiated 1 month LIBOR with CBL rather than 3 month LIBOR this gives dome further cost reductions. 3 month LIBOR is currently 0.67%, a difference of 0.17% resulting in a lower interest charge of £7,800 over the year.

d) <u>Investment Accounts</u>

Cash balances remain low in comparison to previous positions. £750,000 has been placed in a 32 day notice account earning 0.57% compared to the previous term deposit account paying 0.35% with an effective date of 22nd May 2018. Total debt was noted at £12,387,530. The capital repaid to date was noted at £1,290,667 with the weighted average cost of borrowing now 3.02%.

7. PROPOSED NEW BORROWING

Committee noted the progress to date with the Director and Finance Manager to continue to negotiate terms and conditions of the new facility for final approval on completion. The timescale for achieving this is 30 June 2018.

8. TRANSFER TO SUSPENSE ACCOUNT

The Finance Manager referred to the previously circulated report. Following the review meeting with TC Young on 1st May it has been agreed that raising a Simple Procedure action for any debt below £600 is not economically viable given initial costs can be as high as £510 with no guarantee of recovery. The bad debt provision is presently £121,278 and this will be reviewed again at the year end as part of the annual audit process. As outlined in reports above £71k of the provision has been set aside against write offs this year. It is not proposed to write off any further debt for the financial year 2017/18 but to carry this forward into 2018/19 with any increased provision to be agreed with the auditors. Six cases listed >£200 have been actioned with TC Young and deemed uneconomical to recover under a Simple Procedure process, therefore it was agreed to have these written off by Mrs R Tinney and Mr N Halls.

9. OTHER BUSINESS

No other business raised.

7. DATE OF NEXT MEETING

21st August 2018