

Meeting Minutes

Audit Committee Meeting

Wednesday 5 February 2020 at 10.00am in the Leving House, Livingston

Present:	Jean Hamilton (Convener)	In attendance:	Lorna Cameron
	Bob Hartness		Jon Turner**
	Bob McDougall		Sharon Brady-Wardrope
	Dougie Taylor		Carol Bonham
	Frances Wood*		Lorraine Utterson
			Michelle Proust (Minutes)

*Joined the meeting from part-way through Item 372

** Items 368 to 375 only

368 WELCOME AND APOLOGIES

Jean Hamilton welcomed everyone to the meeting. Apologies were received from Janice Flanagan.

A special welcome was extended to Jon Turner, Chief Executive of Link.

369 DECLARATIONS OF INTEREST

There were no declarations of interest.

ITEMS FOR DEBATE/DECISION/APPROVAL

370 MINUTES FROM THE MEETING HELD ON 6 NOVEMBER 2019

The minutes of the previous meeting were confirmed as an accurate record.

Proposed: Bob Hartness

Seconded: Bob McDougall



371 MATTERS ARISING

Item 360 – Bad Debt Write-Off – Half Year Review

In response to a query raised at the previous meeting of the Audit Committee, Sharon Brady-Wardrope advised the Committee that, on review, none of the debts presented at the last meeting of the Committee had been joint tenancies, as such none of the debts had been jointly and severally liable. The bad debt write-off, as approved by the Committee at the previous meeting, had now been actioned.

There were no other matters arising from the meeting of 7 November 2019.

372 RENT REVIEW

The Committee considered the previously circulated report on the key factors influencing the review of rents for 2020-2021 and the rent increase needed to achieve service requirements and long-term viability.

The desire to maintain rents at an affordable level was central to the Committee's deliberations so discussion focused on affordability, and the impact on tenants and the business needs of any change.

The viability and impact of a 2%, 2.5% or 3% rent increase were considered and the Committee recognised that over the 1 year to 30 year budget a 2.5% increase would maintain current position and meet business needs, while also remaining a lower level of increase than the RSL average increase of 2.72%, as set out in Table 2.

It was noted that Table 5 in the report provided figures on the tenant responses to the rent consultation survey: over 68% of tenants who responded supported a 2.5% increase, 22.6% supported a 3% increase and 6.6% of respondents didn't support an increase.

Frances Wood joined the meeting.

In the report 'Section 4 – Viability', outlined the impact of a 2%, 2.5% and 3% rent increase. The Committee agreed that the 2% increase would not be viable in the longer term.

On consideration of a 2.5% increase, discussion focused on the recommendation of the Regulator that landlords should review all costs and efficiencies and not use a rent increase as a default to increase revenue.

The Committee noted that recent and current reviews of costs and structure across the organisation were identifying areas for improvement and efficiency savings, recognising the importance of ensuring quality services and properties.

While the Committee accepted the commonly applied standard of 30% of income as being the standard threshold for accessing affordability of rents, this is limited in its consideration of the number of factors that shape the demands on individual's income. The Committee suggested that consideration should be given to a more holistic approach based on Horizon's tenant profile. Officers agreed to consider alternative formulations for future calculations.

The impact of Universal Credit on rent arrears was discussed, and it was emphasised that staff continue to proactively tackle the impact on tenants. The Welfare Rights Team continues to identify tenants who will move to Universal Credit and the Tenancy Sustainment Team and Housing Officers support all tenants impacted by benefit changes.

There were some brief questions regarding the difference between shared and access ownership, and information on each scheme would be circulated to Committee members, for information.

The Committee concluded their discussions and agreed:

Decision: The Audit Committee recommend to the Board that the following increases are applied from 1 April 2020:

- An increase of 2.5% to rent for social rented properties;
- *A 2.5% increase to service charges, occupancy charges for shared ownership properties.**

- An increase of 3.2% for leased properties;
- An increase of 2.5% to management charges for Access Ownership properties and maintenance charges increased to reflect actual and forecast expenditure.
- The review of factoring administration charges with a view to introducing a two-tier charge – one for factored owners in developments comprising of houses, and one for those living in flats.

Post meeting note: bullet point 2 should read: A 2.5% increase to occupancy charges for shared ownership properties, and service charges increased to reflect actual costs.

373 DRAFT BUDGET

373a Financial Plan Background Paper

The Committee considered the previously circulated report on cashflow as part of the 30 Year Financial Plan and proposed an alternative strategy.

Jean Hamilton summarised the issues highlighted in the report. It explained that Horizon's day-to-day operating costs have been higher than the income generated, with losses forecast to continue for the next two years. Key factors contributing to the deficit were outlined in the report.

The Committee discussed the report and considered how future reporting and scrutiny of financial information could capture and better highlight these kinds of fluctuations at an earlier stage. It was requested that future reporting should incorporate a dashboard style cover report that would highlight any key fluctuations or decline in cashflow for the immediate attention of the Committee and Board.

It was recognised that aiming to be cash flow positive every year is not always achievable – especially during periods where maintaining the quality of stock/service requires larger investments - and that it is natural in the financial flow of running a business that there will be periods of time that will require greater investment and see cash flow in deficit.

However, it was also recognised that the cash flow concerns that were highlighted in the report were related to base level costs and not planned investment.

Sharon Brady-Wardrope offered assurances that substantial work has been carried out on the Asset Management Strategy and other areas of service delivery to achieve efficiencies and that the impact of these would achieve efficiencies which would be reflected in the budget in coming years.

Committee agreed the need for efficiencies for three years from 2021-22 and asked that Lorna Cameron bring back a detailed paper to the Committee in May with options for these.

The Committee agreed that Horizon was operating in a healthy financial framework, and that the aim is to address this deficit and bring the business back to a positive operating cashflow within the next three years.

Lorraine Utterson provided further assurance that Horizon's Financial Plan has always projected in the longer term to be cash neutral, and that it is only in the last three years that some costs have increased in comparison to income, and that the timeline for bringing these back in line with projection for a neutral budget had only drifted slightly.

Members of the Committee requested that Board members should be offered some form of formal training in financial scrutiny, and this would be explored and provided to the Board as part of the formal board member training and appraisal process. Jon Turner intimated that financial training for Board members was under review at Link and that the members of the subsidiary Boards would be welcome to join any training for Board members that would be organised by Link.

Decision: With the above comments in mind, the Committee recommended to the Board the approval of the proposed strategy to managing cashflow in the 2020/2021 Financial Plan by;

1. aiming to achieve a positive cashflow position through seeking efficiencies and

2. seeking to eliminate the use of loan funding for operating working capital.

373b Draft Budget and 5- & 30- Year Financial Projections

The Committee considered the previously circulated report which presented the budgets for the 5-year period 2020/21 – 2024/25 and the 30-year Financial Plan. It was agreed that the report and associated financial information, were well balanced, well researched and a comprehensive.

During discussion the Committee kept in mind the previous discussion around the Financial Plan. Carol provided further assurance on the sensitivity analysis for Bad Debt Write off, correcting the narrative of the report and advising the Committee that it should read an increase of 'up to 5%'.

Decision: The Committee recommended the Revenue and Capital budgets and the 30-year Financial Plan to the Board for approval.

374 MANAGEMENT ACCOUNTS Q3

The Committee considered the previously circulated Management Accounts for the period ending 31 December 2019. It was noted that the forecast final out-turn would not vary significantly from the budget, and the variance was positive. Carol Bonham, Accountant, was commended on the accuracy of her forecast figures.

Decision: The Committee recommend the management accounts for period to 31 December to the Board for approval.

375 BAD DEBT WRITE-OFF

The Committee reviewed the previously circulated report which set out the former tenant credits and debts to be considered under the Management and Collection of Debts Policy. Members considered the impact of the individual and consolidated write-offs requested.

During discussion it was noted that housing officers and the tenancy sustainment team work closely with tenants to identify and support those who struggle with rent payments and are active in identifying potential rent arrears problems.

It was noted that several of the debts included in the report were historic and assurance given that changes in policy and procedure have mitigated the chance of similar circumstances occurring in the future.

The Committee concluded their consideration of the report.

Decision: The Audit Committee approved the write-off of the debts detailed in the report.

ITEMS FOR PERFORMANCE AND RISK MANAGEMENT AND MONITORING

Jon Turner, left the meeting to attend another engagement.

376 RISK REGISTER

Lorna Cameron introduced the previously circulated report that presented a summary of the main changes to the Risk Register and proposed a shorter risk profile focused on a smaller set of risks.

The Committee considered the revisions made, and the suggested alternative approach to risk management and reporting. The Committee were supportive of the principles set out in the report but felt that further work was required to streamline and focus the list of risks incorporated in the register. There was a desire to see the new format of the risk register focused on real risks to the core business of the organisation. A separation of strategic and operational risks, identifying key operational risks, and key risks to keeping the organisation solvent.

Decision: With the above comments in mind the Committee:

1. Noted and approved in principle the revised Risk Register as detailed on Appendix 1: and

2. Approved in principle the alternative approach to risk management and reporting as laid out in Section 3 and Appendix 2: and
3. Requested that a revised report and risk register, taking on board the comments from the Committee, would be presented to a future meeting of the Audit Committee.

377 INTERNAL AUDIT REPORTS AND MONITOR

The Committee reviewed the previously circulated report and monitor.

Decision: The Audit Committee approved the report from the November 2019 block review and the management responses and proposed action plan.

ITEMS FOR NOTE

378 CONFIDENTIAL UNCONFIRMED MINUTES OF THE EMPLOYMENT SUB-COMMITTEE HELD ON 27 JANUARY

It was noted that the minutes of this meeting had not yet been produced, and that this item had been included on the agenda in error. The minutes of the Employment Sub-Committee would be considered at the meeting of the Board on 13 February 2020.

379 LOAN COVENANT COMPLIANCE Q3

The Committee noted the circulated report and were content that all requirements continued to be met.

380 ANY OTHER BUSINESS

There were no items of other business arising.

Date of the next meeting

The date of the next meeting is Wednesday 13 May 2020 at 10:00 a.m. in Livingston.