

## Minutes from Online Audit and Risk meeting - Non-Confidential held 20<sup>th</sup> September 2022

Attendance	John Rawson (JR) (Chair), David Clowes (DC) (Vice Chair), Christine Gore (CG), Andrew Parfitt (AP), Ian Mason (IM), Richard Pineger (RP), Emma Wall (EW), Stafford Cruse (SC), Liz Garner (LG), Adam Waller (AW), Nathan Coughlin (NC) Bishop Fleming
Recorder	Rhian Watts (RW)
Apologies	None
Quorate?	Yes

Item	Notes	Action for
	<i>The Audit &amp; Risk Committee held their annual private meeting with external auditors, Bishop Fleming, prior to the committee meeting to discuss issues not related to the agenda and on which they sought clarification and assurance. This meeting was not minuted.</i>	
1	Meeting commenced at 17:30  No apologies received.  No declarations of interest.	
2	<u>Board Champion for Risk (Verbal)</u>  DC provided the Committee with an update on his Board Champion work. He explained that he had met with AW and IM in July to review the lower scoring risks on the risk register and had discussed the risks relating to the failure to comply with relevant company law and regulations, and the loss of skills and knowledge. DC highlighted that this had been a useful session with positive challenges that had provided assurance that the risk was being well managed. He noted that another session was planned for September where they will be discussing the three lines of defence within risk at CBH. DC explained that this represented the oversight provided by auditors and the Board Champion at level 3,	

	<p>the management provided by AW and the governance team at level 2, and finally the work of colleagues at level 1. He added that he would be happy for other NEDs to attend this session.</p> <p>AP asked whether we have mitigations in place against the risks discussed at the last Board Champion session. AW explained that behind every risk in the risk register the system contains a suite of controls that enable the risk to be effectively managed. He noted as an example that there is a control relating to the submission of the annual regulator returns in the suite of controls that we use to manage the failure to comply with relevant company law and regulations risk. DC commented that as part of the Board Champion discussions they review the controls that are in place. AP commented that the controls behind the loss of skills and knowledge must be more complex. AW agreed and noted that the controls relate to recruitment and retention, as well as learning and development as this is quite a broad risk. SC added that the controls also ensure that there is not one single point of failure by ensuring responsibilities are not only covered by one person, allowing us to cover vacancies.</p> <p>JR asked CG how her new role as Board Champion for Health, Wellbeing &amp; Safety was progressing. CG confirmed that she intended to provide an update at the November Committee meeting.</p> <p><b>The Committee noted the contents of the verbal update.</b></p>	
3	<p><u>Agree non-confidential minutes of the 04.07.2022 meeting and note progress on current action points</u></p> <p><b>The Committee agreed that the non-confidential minutes of the 04.07.2021 meeting were a true record and noted progress on current action points.</b></p>	

4	<p><u>Review and recommend to Board the Governance &amp; Financial Viability Standard compliance:</u></p> <p>SC introduced the report and explained that the Governance and Financial Viability Standard require every Registered Provider (RP) to carry out annual financial stress testing, ensure that we have the right governance structures and processes in place, and an Assets and Liabilities Register in place.</p> <p><u>i. Annual Financial Stress Testing report</u></p> <p>SC explained that the annual financial stress testing reviews the viability of an organisation financially by testing assumptions and scenarios to identify what could 'break' the organisation. He noted that this may involve a number of scenarios happening at the same time. SC highlighted that this understanding allows us to judge what falls outside our financial viability and to consider what mitigations could be put in place to strengthen that viability.</p> <p>RP thanked SC for the strong report and asked what consideration had been given to both rising fuel costs and the growing impact of climate change in relation to potential damage from extreme weather conditions and whether it was intended these would be used for scenario testing in the future. SC explained that in relation to fuel we're currently not exposed in CBH properties as its our tenants who are responsible for the fuel bills with limited communal space. He noted that we have some responsibilities in terms of office spaces which are recharged to the HRA but that these were captured in the inflation factors considered in our models. SC highlighted that we are most likely to see the effect of rising fuel costs through the impact on tenants leading to potential rent arrears. In relation to extreme weather SC explained that it wasn't modelled on this occasion as we currently have comprehensive insurance cover. He added that there is a risk in the future as premiums may increase due to escalating costs and claims. SC noted that we have already seen an increase in premiums which has been built into the current model and added</p>	
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	<p>that it would be interesting to consider further increases in the future. RP asked whether we are monitoring maintenance costs linked to damage from extreme weather conditions. SC confirmed that we do monitor maintenance and that it is a factor that is considered.</p> <p>CG commented that the testing only relates to CBH owned properties and asked whether CBC carries out a similar activity and whether their results are shared with CBH. SC explained that as a local authority they are not required to follow this standard for the HRA. He noted that they may carry out similar testing in different ways for the council as a whole but that he was not aware of this having been completed. SC added that as part of our management of the HRA we use a separate financial model provided by a 3<sup>rd</sup> party for the 30-year HRA plan which is used for scenario and assumption testing. He explained that the main driver for using this model has been to understand how much investment we can build in over the short term, next 5 years, and the impact of this investment on the financial viability of the HRA over 30 years. SC added that we are currently underway with this process and are looking at the impact of inflation, debt rates and rent cap. He noted that the government are currently carrying out a consultation on rents which may lead to them being capped at 3%, 5% or 7% for the next 1-2 years. SC highlighted that the Bank of England is currently projecting CPI at 11-13% for September, so the proposed caps would lead rents to be significantly lower than inflation. He explained that this will be built into the modelling. CG asked whether Board would review this as part of the budget process. SC suggested that it would be good to review this with a group of NEDs outside of the main Board cycle. He highlighted that the HRA budget itself is the responsibility of CBC rather than CBH. JR agreed that it would be positive for Board members to have a discussion on the HRA budget prior to the publication. He highlighted that this budget has a significant impact on tenants and services.</p> <p><b>ACTION</b> – Arrange a meeting for NEDs and SC to discuss the HRA budget.</p>	<p>RW</p>
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	<p>JR commented that the financial concerns for the HRA reflect the same issues faced by CBH. He noted that this report provides important information and possibilities that can be built into a strategy for how we react to the current situation. JR commented that this could potentially involve deferring or retaining investment, sale of property, better procurement, cost control or staff cuts. He added that he had reviewed the Regulator of Social Housing's (RSH) letter to housing associations (HAs), which had highlighted that they will need to recast their strategies to deal with this issue. SC commented that 2 elements, the rent consultation and the rise in interest rates, will have more of an impact on the HRA than CBH as CBH has fixed debt and no new build schemes. He noted that it is not expected that the rent formula will be capped as part of the rent consultation. SC explained that this is used to work out the target social rent (which represents the vast majority in the HRA – 96%), so when you relet a property you charge the new tenant using this formula rather than the existing rent. He noted that we have a turnover of around 7% stock each year which will enable us to recover some of the lost rent and reduce the impact. SC highlighted that this was a complicated thing to model but that our HRA model includes it but CBH model does not. He noted that we haven't been able to use this model for CBH owned properties so the report doesn't reflect this benefit.</p> <p>In relation to loans SC explained that all of the loans in CBH are at fixed rate but the HRA would need to take out new loans from the PWLB (Public Works Loan Board) for additional investment where the rate is based on gilts and has increased from 2% to 4.5% in the last 6-12 months. SC highlighted that the rent cap, inflation and debt costs could have 3 big implications for whether we need to make revenue and operational savings (potentially in addition to the current Campbell Tickell savings); whether we need to make changes to investment; and how much new building we undertake. He commented that these are significant impacts. JR agreed that this represented the biggest financial challenge we have seen since the rent freeze.</p>	
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	<p>DC asked what the impact on stress testing would be if, for example, we were to add 10 new CBH owned PRS properties or 10 S106 properties and what difference that would make to the graphs negatively or positively. SC commented that it would depend on the viability and performance of the schemes. He explained that if it was financially viable we are likely to see more losses in the early years but then would be seen as an improvement on the graph after this with the right rental increase and controlled costs. SC noted that the challenge would be in finding a viable scheme with interest rates currently high.</p> <p>IM asked what the impact shown in the graphs would be on our obligations for delivering net carbon zero, noting that this was a very challenging financial situation. He asked whether these obligations are mandated by CBC and would require us to reduce activities elsewhere. SC explained that currently the model doesn't contain significant retrofit costs as they are dependent on the availability of government funding. He agreed that if this is funded from the HRA in the future it will mean that other investment may be restricted. EW commented that the only requirement for social housing homes is that all properties should have an EPC of C or higher by 2030. She explained that whilst we are conscious of CBC's net zero aspiration for 2030 it has been agreed that we will follow funding opportunities and take a fabric first approach in the first instance. EW added that in the next few years we will need to decide on whether we ramp up retrofitting in the next few years and whether this is practically possible.</p> <p><b>The Committee reviewed the scenarios tested and the key risks to CBH's financial health and endorsed the approach taken and the appropriateness of the mitigating actions which are available to CBH and recommended the report to Board.</b></p> <p><u>ii. Annual report on the governance requirements of the Governance &amp; Financial Viability Standard</u></p>	
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	<p>SC introduced the report and explained that it assesses whether we have the right governance structure and processes in place. He noted that as part of this Board reviewed and approved the requirements of the NHF Code of Governance (2020) in June. SC explained that the further governance requirements had been assessed and showed no areas of non compliance. He added that there had been no significant changes in the requirements in over 5 years. JR thanked him for the report.</p> <p><b>The Committee reviewed CBH's compliance with the Standard as set out in Appendix 1, and recommended the statements made in Appendix 1 to Board and recommended that this compliance is stated within the 2021-22 annual accounts.</b></p> <p><u>iii. Annual review of Asset &amp; Liabilities Register</u></p> <p>SC explained that a requirement of the Governance and Financial Viability Standard was that RPs maintain a register of assets and liabilities. He noted that the approach taken at CBH is in line with the organisation being non-complex.</p> <p>DC noted that the documents and spreadsheets are stored in a number of places digitally and asked who has access and for assurance that there is no risk of losing access if colleagues leave CBH. SC confirmed that this information is not shared with everyone as the majority of documents are stored on Sharepoint where we can restrict access but noted there are always a few people with access. He explained that several of the documents are stored within the Finance Team area so only the Finance Team have access unless they choose to share it with another colleague.</p> <p>DC commented on the issues with the Hesters Way Resource Centre (HWRC) and asked for assurance that there would be no issues with us maintaining our lease. SC explained that we had very well-developed negotiations regarding our new lease with Hesters Way Project before that forfeited the lease of the building. He confirmed that these negotiations had shifted over to the</p>	
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	<p>landlords, the Hesters Way Partnership, who were very happy with the agreed terms. SC added that it has taken a little longer than expected as we are withdrawing from the downstairs offices which will reduce costs. He noted that we are working with the Hesters Way Partnership to transfer this space to the NHS.</p> <p>RP noted that the location column is blank against property lease and licenses. SC thanked him and confirmed that these documents are held in the Finance areas of Sharepoint.</p> <p><b>ACTION</b> – Add location details for property lease and licenses in the Assets and Liabilities Register.</p> <p>The Committee reviewed the contents of the Asset and Liabilities Register as set out in Appendices 1 and 2, agreed that this approach remains appropriate for CBH and recommended this report to Board, subject to the changes noted in the minutes.</p>	SC
5	<p><u>Approve and recommend to Board the External Audit Report on the group Financial Statements 2021-22</u></p> <p>NC introduced Bishop Fleming's external audit of the group Financial Statements 2021-22 and explained that in terms of outstanding matters the audit is still waiting for a couple of confirmations, particularly the receipt of CBC's intercompany balance. He highlighted that they were comfortable that subject to this finalisation they issue an unmodified audit report. NC highlighted that this was expected to be a clean audit report. He noted that the timeline had been adjusted due to pressures within the Finance Team and thanked them for setting a realistic timetable and ensuring everything was ready, accurate and correct for their review.</p> <p>NC highlighted a number of the significant risks that had been considered as part of the audit this year. These included pension liabilities which have decreased this year due to changes in the assumptions of the actuary particularly discount rates and bond yields. NC highlighted that there have been more significant</p>	



	<p>decreases in overall liability values of LGPS (Local Government Pension Scheme) pensions since March. He noted that the triennial pension evaluation is scheduled for late autumn and will feed into CBH's contribution rates from April 2023. DC thanked NC for the assurance given over pensions. He asked whether with the potential for us to see liabilities reducing we could also see employers' contributions reduce or a pension holiday. NC commented that a pension holiday would be a big step but that we could potentially see employer contributions reducing. He noted that accounting standards tend to be more prudent on their assumptions compared to the 3 year evaluations.</p> <p>NC discussed the medium to longer term challenges discussed in the going concern. He explained that the auditing standards require them to consider at least 12 months from sign off and highlighted the range of information that had been taken into consideration, including the pressures around inflation. NC explained that when the CBH current accounts forecasts were considered the lowest balance to March 2024 was identified as £1.7 million, which gives considerable comfort for the going concern for the next year.</p> <p>NC highlighted that one significant change this year was the inclusion of the PRS scheme which represents a complicated accounting matter. He explained that the funding is based on money in return for a percentage of the rent received which is considered to be a complex financial instrument compared to a straight index based loan. NC noted that this requires us to hold this at fair value. He explained that the Finance Team have produced a discounted cash flow forecast to calculate the fair value of this instrument. NC highlighted that assumptions around increase in market rates are very similar to the discount rate to be used which are consistent with the current PWLB discount. He noted that the methodology has provided a value broadly similar to the cost so the calculation for 31 March 2022 is £542,000. DC noted that the report says the complex financial instrument will be revisited annually. NC explained that a process has now been</p>	
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	<p>agreed so we will be able to update the calculations via a spreadsheet annually.</p> <p>JR thanked NC and his colleagues for their work. SC echoed his words and commented that this had been a challenging year and that NC and his team had been fantastic and very supportive. EW also thanked SC and the Finance Team for the attention to detail and excellent work they had delivered under considerable pressure and with a number of vacancies. JR agreed that it was no small achievement for the external audit to provide a clean bill of health.</p> <p><b>The Committee reviewed the contents of the report and recommended it to Board.</b></p>	
6	<p><u>Review and recommend to Board the Financial Statements 2021-2022 for CBH Ltd</u></p> <p>SC introduced the Financial Statements for 2021-22 for CBH Ltd.</p> <p>CG noted that under the heading 'Supplying new homes' it lists 25 homes as our target for 2022-23, which seemed low given our overall ambitions. SC confirmed that our target had reduced significantly when we had originally been looking at an upward trajectory. He explained that this was due to the impact of Covid and increased costs which have led to providers slowing down. SC added that there have also been a number of occasions where planning permission had not been granted. He commented that where this involves large developments that may have been agreed years ago this can have a huge impact and be very frustrating. CG suggested that it may be worth reflecting this in the narrative in the future. SC agreed and noted that it had been included in the HRA budget, so should be reflected in the Financial Statements as well.</p> <p><b>ACTION</b> – Include narrative around issues impacting new supply ambitions in the Financial Statements.</p> <p>IM noted the KPI information included in the report and noted that it currently does not include anything around the maintenance of</p>	SC

	<p>communal areas. He commented that it is expected this will be included in the Tenant Satisfaction Measures (TSMs) starting in April 2023 and suggested that this is something that we should report to Board in the future. AW confirmed that questions around this had been included in the latest Acuity surveys and will evolve as we get final confirmation of the TSMs. He added that we are positioned well to provide Board with an update before the TSMs go live.</p> <p>RP noted that the direct cost per property of lettings has been increasing and asked why it is getting more expensive. SC explained that this primarily reflects how costs have been allocated as it had been identified that some of the costs relating to lettings costs had been incorrectly allocated to void costs instead. He commented that this had led to a slight change in our targets. SC added that we will be considering digital sign-on for lettings to find efficiencies here. EW agreed that there are efficiency improvements we can make with initial investment that could lead to cost savings. She noted that it is anticipated that this will go on the work programme soon.</p> <p>DC noted that he had found the additional appendices around pension accounting and ESG (Environmental, Social and Governance criteria) extremely useful. He thanked SC for the inclusions and noted that ESG requirements are likely to have growing importance around social housing in the future. RP noted that in 2021 the Gloucestershire pension scheme still had £100m invested in fossil fuel, which didn't reflect well environmentally.</p> <p>JR noted that the report refers to CBH having secured £40k of funding to improve the efficiency of homes in government funding and noted that this amount seemed low. SC confirmed that this referred only to the original Demonstrator Fund which covered 2 properties. He explained that since then we have secured an additional £800k to retrofit 59 properties as part of Wave 1 of the Social Housing Decarbonisation Fund (SHDF). EW added that Wave</p>	
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	<p>2 funding has also now opened and that we are currently determining which properties will be submitted.</p> <p>The Committee reviewed the CBH Group accounts for the year ended 31st March 2022 and recommended these to the Board for signing, subject to the changes noted in the minutes.</p>	
7	<p><u>Review and recommend to CBHS Board the Financial Statements 2021-2022 for CBH Services Ltd</u></p> <p>SC introduced the Financial Statements for CBH Services Ltd and explained that as the company had been non trading for the year they had agreed with NC that an external audit should not be required*. He noted that the CBH Services accounts are consolidated in the Financial Statements for CBH.</p> <p>EW thanked SC and the team for the work done on the Financial Statements and noted that this was a significant and large piece of work.</p> <p>The Committee recommended to the Board of CBHS Ltd to approve the financial statements for Cheltenham Borough Homes Services Limited for the year ended 31 March 2022 for signing on behalf of the Board by Steve Slater as a Director and Adam Waller as the Company Secretary of CBHS.</p> <p><i>*(Subsequent to this meeting it was confirmed that an external audit would be required. Please see the Non-Confidential minutes of the Board meeting on the 28 September 2022 for the update provided to Board)</i></p>	
8	<p><u>Risk Review Area: Recruitment challenges and skills shortages</u></p> <p>LG introduced a report on recruitment challenges and skills shortages experienced by CBH and the sector. She highlighted that the report provided background and context for the issues and feedback from the Heads of Service on CBH's specific challenges,</p>	

	<p>the impacts on teams and the actions being taken. JR thanked everyone involved for the thorough report and the insight provided into the range of approaches being taken.</p> <p>CG agreed that this was a very useful report and mostly reassuring. She commented that this was clearly a problem that would not be over quickly. CG highlighted the importance of the softer approaches taken to ensure that CBH are a good employer. She noted that the report mentions listening to colleagues and asked whether exit interviews are carried out regularly and whether colleagues are asked what would make them stay at CBH. LG confirmed that we always carry out an exit interview with the line manager. She explained that this includes discussion of hours, sick pay, maternity leave, pensions and other benefits to encourage colleagues are thinking wider than just pay and establish whether there are actions that would lead to them staying. LG added that we also ensure that colleagues feel welcome to return after they leave, noting that recently a colleague returned after 10 months. LG highlighted that this goes beyond exit interviews we encourage colleagues to have really open conversations to enable them to discuss career plans and development throughout their time at CBH.</p> <p>CG asked whether conversations with colleagues have led to wider initiatives being introduced. LG confirmed that we engage with colleagues in a number of ways including the Best Companies survey, the We Are CBH group and through consulting with individual teams. She explained that this had established the priorities being developed through the People Plan around wellbeing, personal growth and development, and fair deal. LG added that recently we have also used colleague feedback to review benefits such as holiday allowances to ensure that we are offering an attractive package beyond salaries. She highlighted that purpose, values and mission are also extremely important for CBH colleagues. EW commented that Best Companies and MC<sup>3</sup> allow us to build a picture of colleagues who may be more dissatisfied. She explained that this gives managers an opportunity</p>	
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	<p>to discuss the MC<sup>3</sup> behaviours directly and enable open conversations. EW added that it was important to ensure we were doing everything possible to prevent years of experience leaving CBH.</p> <p>RP thanked colleagues for the work that they had put in over the last 12 months and commented that it was extremely useful to see the issues CBH are facing put into the wider context. He noted the wide range of approaches taken and suggested that in the future it may also be worth considering outsourcing some areas of work and reviewing the possibility of automation.</p> <p>RP asked whether in terms of pay we are restricted to the public sector pay awards. LG confirmed that we are part of the public sector pay bargaining and that it would be a difficult step to move away from this. SC commented that we committed to this approach when CBH was set up. JR noted that one of the difficulties with the pay award is that the negotiations are concluded well after the period they affect. He asked at what stage the current negotiations for 2022-23 were. LG confirmed that the unions had put forward a proposal and that the employers had submitted a counteroffer. She noted that we are currently waiting for the union consultations to finish. SC explained that the offer from the National Employers is £1925 on all pay points which would be equivalent to a minimum of 4.04% pay award at the top of the scale increasing to 10.5% at pay point 1. He noted that this had been proposed to ensure that pay point 1 would be higher than the predicted National Living Wage. SC commented that this was a very good offer but that it doesn't approach inflation at the higher grades. He explained that Unite have rejected the offer and that GMB and Unison are currently balloting their members so there was still a long way to go.</p> <p>IM asked whether the new Resident Opportunities and Empowerment programme funding would provide opportunities for CBH to upskill and engage with residents. He noted that he is involved with the CBH volunteering programme and they have</p>	
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	<p>been discussing find opportunities for a soft entry point for residents who many never have thought about engaging with education. IM highlighted that there may be ways to find the skills we are missing from within our customers. EW explained that unfortunately the funding is only available for national programmes so couldn't be used for projects solely in Cheltenham. She added that we would continue to seek additional funding opportunities.</p> <p>DC commented that it was a great report and very useful to consider the issues experienced by specific departments. He noted that the report makes reference to the ways we're encouraging new recruitment, such as the 4-day working week trial in repairs and asked whether this was also being offered to existing repairs colleagues. LG confirmed that all operatives were eligible to the same benefits and offers. She explained that the 4-day working week trial was currently being trialled with existing Repairs colleagues.</p> <p>EW thanked the Committee for their thoughts on the report and noted that for the last 9 months colleagues have been adapting and being flexible to manage these challenges. She noted that we are seeing the impacts in the business and that we may increasingly need to push back non-essential deadlines. EW highlighted that we are continuing to do everything we can to mitigate against this but thanked the Committee for recognising the challenges we are up against.</p> <p><b>The Committee considered and commented on the information included in the report. They thanked officers across CBH for the work they are undertaking to combat the problems outlined in the report.</b></p>	
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Meeting Closed at 19:12

*J. O. Hannon*

Signed.....

Date: 10/11/2022

Chair of the Audit and Risk Committee