WHEATLEY HOUSING GROUP LIMITED

BOARD MEETING

19 February 2020, 10.30am
Board Room, Wheatley House

AGENDA

1. Apologies for Absence

2. Declarations of Interest

3. Minutes of Meetings held on 18 December 2019, 31 January 2020 and Matters Arising

4. Group CEO Update

Main Business Items

5. a) Business Plan Financial Projections (Supported by presentation)
   b) Rent and other charges 2020/21

6. Funding update [report redacted]

7. DGHP Transformation Programme

8. Group integration update

9. Alliancing (Presentation)

10. Group Repairs & Maintenance Policy Framework

Other Business Items

11. a. Group new build performance report
    b. Group Five Year Development Programme
    c. DGHP New Build 'Four Priority Projects'

12. Group Delivery Plan 2019-20: Quarter 3

13. Group Procurement - Annual Strategy

14. Insurance Tender

15. Finance Report

16. Group Treasury Report

17. Gender Pay Gap (Presentation)

18. AOCB

Report

To:- **Wheatley Housing Group Board**

By:- **Steven Henderson, Group Director of Finance**

Approved by:- **Martin Armstrong, Group Chief Executive**

Subject:- **Business Plan Financial Projections**

Date of Meeting:- **19 February 2020**

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1. Purpose

1.1 The purpose of the report is to seek approval of the Wheatley Housing Group ("WHG" or the "Group") and subsidiary Business Plan Financial Projections and related key financial ratios.

2. Authorising context

2.1 Approval of the Group strategy and financial projections as well as each subsidiary's projections (including any borrowings) is one of the matters reserved to the Group Board in the Group Standing Orders.

3. Risk appetite and assessment

3.1 The Group risk appetite for business planning is 'open'. This is defined as being prepared to adopt the approach that is most likely to result in successful delivery while also providing an acceptable level of reward (i.e. value for money).

3.2 Sensitivity analysis and stress testing of our financial projections is addressed in section 6 of this report.

4. Background

4.1 With the addition of Dumfries & Galloway Housing Partnership ("DGHP"), the Group has, in effect, five parts from a financial point of view:

(i) *the RSL Borrowing Group* – the aggregated financial position of GHA, Dunedin Canmore, Cube, Loretto Housing, West Lothian Housing Partnership and the entity that raises borrowing and lends to them, Wheatley Funding No.1 Ltd; this is by far the largest part of our group, with turnover of over £300m comprising around 75% of Group income;

(ii) *DGHP* – our new partner organisation with 10,300 homes and turnover of £47m; at the moment it has its own loan facilities and covenants which are separate from those of the RSL Borrowing Group;

(iii) [redacted]

(iv) [redacted];

(v) [redacted].

4.2 These parts of the Group are supported by Wheatley Solutions, that provides corporate support services to each, as well as City Building (Glasgow), our 50% owned joint venture with Glasgow City Council that provides property repairs and improvement services, particularly to our west of Scotland RSLs.

4.3 Over the course of the coming year we will look at DGHP potentially joining the RSL Borrowing Group to reduce the number of discrete funding arrangements we need to manage.

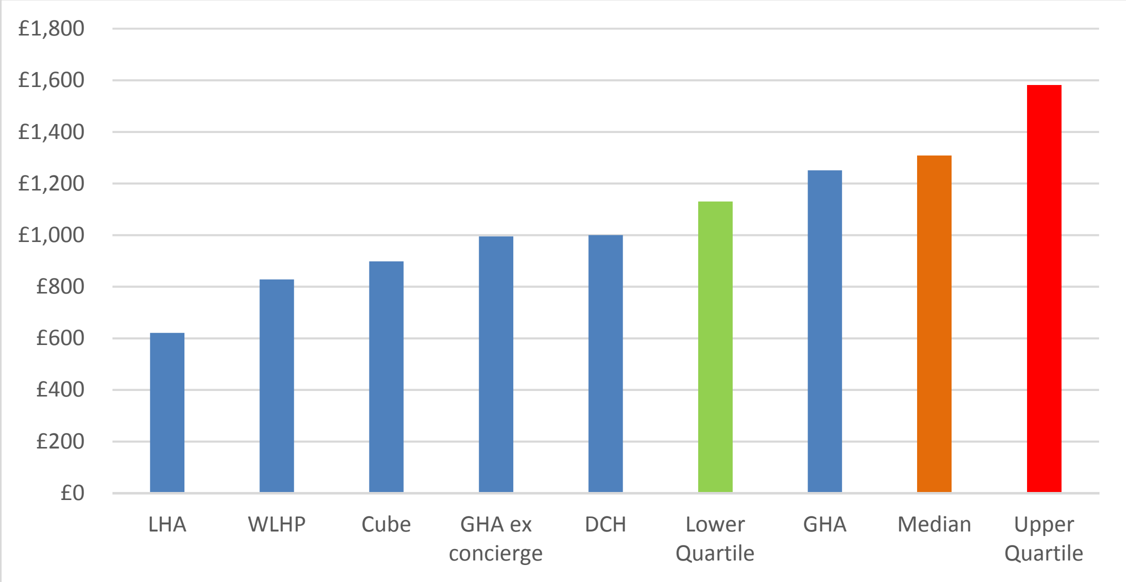
4.4 Our RSL Borrowing Group has been on a journey in recent years to reaching an underlying "break even" position. We define this as being where the income from our social letting activity can cover all investment necessary to manage and maintain the properties, as well as paying interest on our debt. From a position of a £46m deficit on this basis in 2014/15, we are now close to reaching break even, with a forecast deficit of £2.6m for 2020/21.

4.5 This financial transition has been a major achievement, but we do have further to go; our loan covenants require us not just to break-even, but to operate with a level of financial headroom. Our own "Financial Golden Rules" set out the parameters which we deem acceptable by way of minimum headroom over and above loan covenant levels, in particular the need for at least 25% (£18m) of buffer on our interest cover ratio.

4.6 Our approach will continue to balance affordable rent increases, a strong focus on ensuring cost efficiency, and resourcing our strategic ambitions and service model. In October, the Board approved *Inspiring Ambition, Unleashing Potential*, our 2020-25 strategy. Our assumed costs (other than the specific exceptions noted below for new build and digital) reflect the provisions necessary to deliver this strategy.

4.7 On overhead cost efficiency, we continue to lead the sector. This is in large part from the economies of scale we can achieve from sharing back office and support services through Wheatley Solutions. For example, since Dunedin Canmore joined the Group in 2015, we have eliminated more than the equivalent of its overhead costs. Figure 1 shows that our management costs per unit for the Group's RSLs are below the median level for RSLs in Scotland with the majority of stock classed as general needs. If GHA is "normalised" to exclude the cost of concierge services in its multi-storey stock and give a like-for-like comparison, then all of our RSLs are below the lower quartile; a key indicator of efficiency.

Figure 1 – Management cost per unit – comparison with sector quartiles



Source: Scottish Housing Regulator, from audited accounts 2018/19. Note Barony HA is excluded due to the inclusion of care-related management and admin costs in its accounts.

5. Discussion

5.1 The detailed 2020/21 financial projections for the Group are provided in Appendix 1 of this report. The key elements under each theme of our new strategy are set out below.

<u>Delivering Exceptional Customer Experience</u>

5.2 Our strategy seeks to deliver exceptional customer experience while maintaining affordable rent levels for our tenants. Our financial projections include funding to support:

A continuation of our 1:200 housing officer patch sizes and environmental teams, including:

- Building on the five-star accreditation recently awarded to a number of sites throughout the group through our partnership with Keep Scotland Beautiful. Funding of £130m over the next five years for environmental services will assist the Group in achieving five-star accreditation in all of the areas within which we operate. This allocation represents £121m to fund the work performed by our environmental teams, and over £9m on capital environmental works.
- A programme of improvements to the common areas within our blocks, which has also been informed by our work in conjunction with Keep Scotland Beautiful.
- Maintaining or increasing our concierge presence in our multi-storey blocks. This ensures that our customers always have a point of contact on site, improving the safety and security of our tenants.
- Ongoing funding of £2.1m per annum for the Wheatley 360 wraparound services which we introduced in 2018/19. Wheatley 360 provides additional support and services to our tenants such as housing advice, homelessness and customer support.

- Continuing our commitment to the Community Improvement Partnership ("CIP") with the police and fire services with a provision of £2.3m per annum. These partnerships support communities across a number of areas, such as fire prevention, and dealing with anti-social behaviour and crime.
- Our new *MyRepairs* service, with a specialist hub in our call centre delivering the right diagnosis first time, offering next day appointments and text alerts to customers, improving the flexibility of our offering and enhancing business efficiencies through improved access rates.

5.3 An increase in social rents of 3.4% will be applied for 1 April 2020 across all RSL partners, with the exception of DGHP and former Barony tenants whose rents will increase by 2%. This is in line with the consultations carried out with tenants and as approved by all individual RSL Boards.

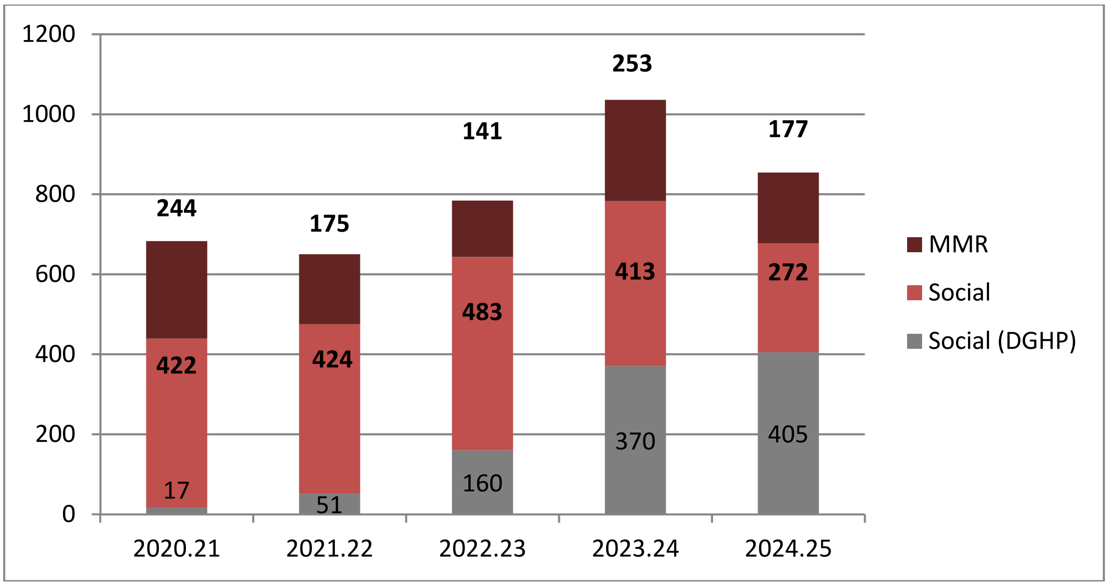
5.4 We continue to meet the employee and running cost efficiency targets set out in last year's approved projections. The 2020/21 projections continue this effort and assume further efficiency savings of £5m in management costs over the next five years (including £1.9m in 2020/21), supporting ensuring rents represent value for money for our customers.

Making the Most of our Homes and Assets

5.5 In 2020/21, we plan to invest around £80m in our existing properties, this is equivalent to £1,300 per property. City Building (Glasgow) will continue to play a key role in improving the quality of our customers' homes through its role as our delivery arm for repairs and investment work in the West and we anticipate a further role for them in the delivery of DGHP's investment programme going forward. The trade discount arrangement will see £3.65m returned to the Group in 2020/21 with this planned to increase to £3.7m by 2023/24 in line with targets agreed in the City Building (Glasgow) business plan. In total, we plan to invest over £360m in improvements to our customers' homes in the first five years of the plan.

5.6 A key part of our strategy is to continue to develop quality affordable homes for people in the areas in which we operate and we have set ourselves an aim of delivering 5,500 new homes by 2025. In 2020/21, we plan to complete 683 new homes and over the period 2020 to 2025 our financial plan reflects the completion of 4,000 additional new build properties including 1,000 to be delivered by DGHP. Figure 2 below shows the profile of units assumed to be delivered over the period by tenure.

Figure 2 – Development Programme



5.7 The level of development is limited at the moment by our "debt per unit" loan covenant. During the next 12-24 months we intend to request an increase in the debt per unit covenant with our lenders, with a view to providing new capacity to increase affordable housing delivery by a further 1,500 homes.

5.8 This planned growth, which includes the completion of 3,017 new social housing units and 990 mid market properties over the next five years is assumed to be supported by £320m of grant income. A continuation of the Scottish Government's current approach to grant funding after the next Scottish Parliamentary elections in 2021 is therefore crucial to our ability to deliver these homes.

<u>Changing Lives and Communities</u>

5.9 While the Group's care activities represent 5% of Group turnover, services delivered through Loretto Care and Barony continue to deliver surpluses, as they have done every year since joining the Group. This has been achieved through a combination of efficient Group service provision, reducing the overhead costs Loretto Care pays; as well as work led by Care management to reconfigure services by altering staff structures and working patterns.

5.10 One of the key themes in the 2020-25 strategy; *Inspiring Ambition, Unleashing Potential;* is the creation of customer value and the shaping of care services for the future. As part of this, work has been undertaken to bring Care services delivered by Loretto Care and Barony Housing together under one company and we anticipate our new Care company will be established at the beginning of 2020/21. This is a major step towards realising our ambition of being one of Scotland's leading care organisations by 2025 and further protects the viability of Care activities in an entity with a strong level of reserves, supported by a new structure to enhance the frontline delivery of Care.

5.11 [redacted]

5.12 [redacted]

Developing our Shared Capability

5.13 We continue to use technology to work smarter and improve our service offering to our customers. Significant investment in technology and digital innovation over the last five years has created new platforms for customers to transact and engage with us, providing a great foundation on which we will build.

5.14 Our financial projections include over £15m of capital investment in IT infrastructure (£3m a year) to develop our digital transformation programme over the period of the strategy. Revenue provision has been increased by £0.5m a year to £4.2m in total, reflecting the trend towards provision of licence-based "software as a service" provision for new digital infrastructure.

5.15 During 2020, we propose to establish a new Digital Transformation team to complement the role of our existing IT function. This will provide capacity to support the development of business cases and lead on the delivery of new investment in digital solutions. The budget provision in these projections may therefore require to be increased; but this will be based on an assessment of the costs of our digital delivery plan which will be brought back to the Board later this year.

5.16 The Group funds modern apprenticeships through the Wheatley Foundation. These apprenticeships are offered to young people in the communities in which we operate. This programme has been delivering benefits for 10 years with funding continuing in the projections.

5.17 Customers also benefit from the bursary programme offered by the Wheatley Foundation. This provides financial support to our customers who want to go into further education but would struggle to afford it on their own.

Enabling our Ambitions

5.18 In 2018/19 the RSL Borrowing Group signed a funding agreement for £185m of long term EIB funding and in October 2019 we drew down the first £85m of this, with a further £50m expected to be drawn later this year.

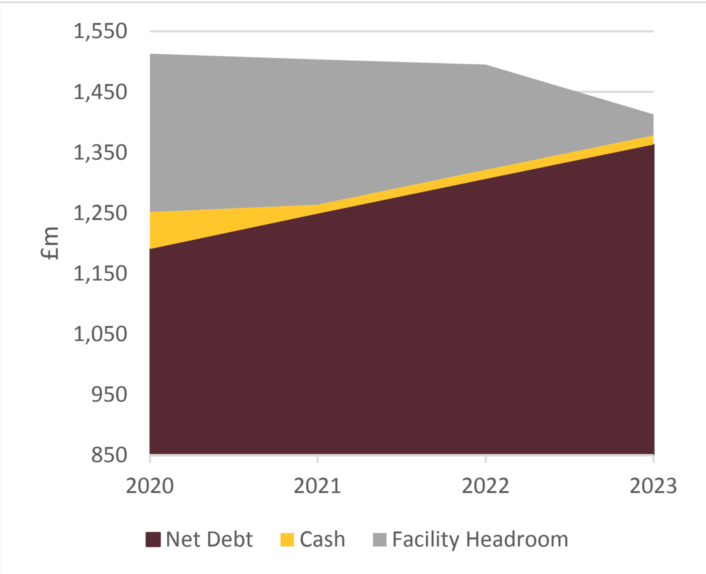
5.19 [Redacted]

5.20 We also set, and annually review, Financial Golden Rules, which set parameters for the financial position of our RSL Borrower Group (and which would apply to DGHP too). These Golden rules ensure we maintain sufficient liquidity and headroom within our cash and covenant positions.

5.21 We propose one change this year; to update our liquidity Golden Rule to increase our minimum forward cash availability from the previous limit of 15 months + 25% contingency, to two years. This is to reduce refinancing risk and responds to feedback from Standard & Poor's that adopting a two-year minimum approach helps support a continued strong score in the liquidity aspect of their rating. The updated Golden Rules are therefore as follows:

RSL Borrower Group Golden Rules	
Liquidity	▪ Retain enough immediately available funds (i.e. free cash and secured undrawn debt capacity) to always meet our cash requirements for the next 2 years ▪ Contracted development + 25% to be covered by cash and available facilities
Gearing	▪ Not to exceed 70% (debt/property asset value on EUV-SH basis) ▪ Gross Debt per unit headroom to always exceed £50m
Interest cover	▪ Always minimum 25% cover over the covenant level

5.22 Liquidity – RSL Borrowing Group



The funding structure has been developed to ensure that sufficient liquidity is maintained to meet our Golden Rules

The chart on the left shows that we project having sufficient cash and available on-demand loan facilities to maintain headroom over and above projected debt requirements over the next 2-3 years.

6. Group Financial Projections

6.1 The Group financial projections are set out in Tables 1 and 2. These show the Statement of Comprehensive Income and Statement of Financial Position respectively.

Table 1: WHG Statement of Comprehensive Income

£000s	2020-21	2021-22	2022-23	2023-24	2024-25
Turnover	**394,438**	**408,549**	**437,155**	**475,085**	**477,948**
Operating Costs	(299,572)	(306,552)	(311,655)	(324,034)	(336,560)
Other Income & Gains	(14,158)	(6,014)	(4,636)	(9,836)	(6,665)
Operating Surplus/(Deficit)	**80,708**	**95,983**	**120,864**	**141,215**	**134,723**
Operating Margin	*20%*	*23%*	*28%*	*30%*	*28%*
Gain on Sale of Fixed Assets	1,060	8	0	0	0
Net Interest Payable	(73,194)	(75,383)	(78,469)	(81,906)	(86,153)
Movement in Housing Valuations	9,377	(13,362)	(25,973)	(19,780)	7,879
Surplus/Deficit before Tax	**17,950**	**7,246**	**16,422**	**39,529**	**56,448**
Tax	(279)	(303)	(311)	(346)	(360)
Surplus for the Year	**17,671**	**6,943**	**16,111**	**39,183**	**56,088**

Table 2: WHG Statement of Financial Position

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Housing & Investment Properties	2,637,293	2,738,222	2,841,145	2,934,680	3,034,969
Other Fixed Assets	52,617	50,367	47,829	46,068	45,218
Total Fixed Assets	**2,689,910**	**2,788,589**	**2,888,974**	**2,980,749**	**3,080,187**
Debtors Due < 1 year	47,682	47,758	46,736	46,378	46,371
Cash	62,014	47,933	31,616	31,644	31,752
Creditors Due < 1 year	(144,579)	(161,311)	(164,241)	(158,415)	(144,417)
Net current assets/(liabilities)	**(34,883)**	**(65,620)**	**(85,889)**	**(80,393)**	**(66,294)**
Loans – Bank & Bond	(1,513,706)	(1,572,726)	(1,634,649)	(1,690,552)	(1,745,706)
Loans - SG	(39,211)	(41,192)	(43,272)	(45,458)	(47,754)
Provisions for liabilities & charges	(3,905)	(3,905)	(3,905)	(3,905)	(3,905)
Pension Liability	4,004	4,004	4,004	4,004	4,004
Long Term Liabilities	**(1,552,818)**	**(1,613,819)**	**(1,677,822)**	**(1,735,911)**	**(1,793,360)**
Net Assets	**1,102,208**	**1,109,151**	**1,125,262**	**1,164,445**	**1,220,533**
Capital & Reserves	**1,102,208**	**1,109,151**	**1,125,262**	**1,164,445**	**1,220,533**

6.2 The detailed Financial Projections for the Group are set out in Appendix 1. The RSL activities within the Group are ring fenced from the wider commercial activities and separate consolidated 'RSL Borrowing Group' accounts are prepared to support the funding in place. These are also shown in Appendix 1.

6.3 A continued focus within the RSL Borrowing Group remains cash generation capacity. When considering our position we look to the amount of cash that the business generates from its operations, strip out non-cash accounting adjustments such as depreciation, and deduct the costs invested through our repairs and on-going capital maintenance programme. This calculation measures earnings after taking account of the investment expenditure needed to maintain the revenue generating assets and is defined as EBITDA-MRI. The measure reports the earnings from the business available to pay interest costs. This is now the principal measure used in the UK social housing sector to assess ongoing financial sustainability.

6.4 Table 3 below presents the EBITDA-MRI profile for the RSL Borrowing Group mapped against our interest costs.

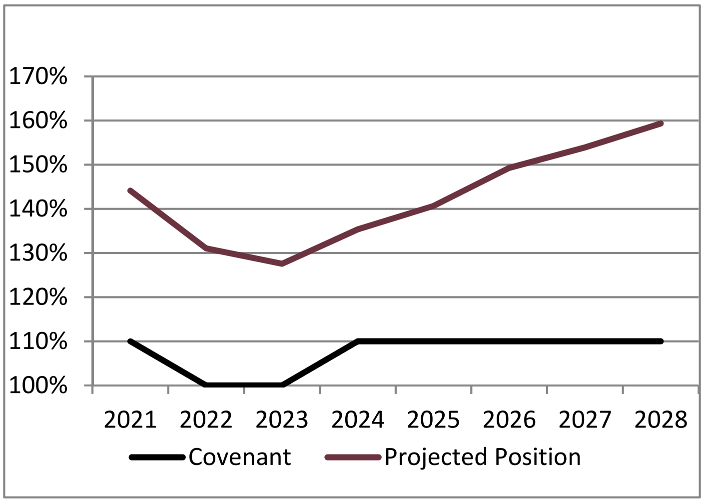
Table 3 – RSL Group EBITDA-MRI projections

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Turnover	258,464	270,211	282,873	296,630	309,022
Operating Costs (excl Depreciation)	(140,102)	(142,742)	(139,731)	(143,929)	(147,373)
EBITDA	**118,362**	**127,469**	**143,142**	**152,701**	**161,649**
Capital Stock Improvements	(58,357)	(56,426)	(55,914)	(56,834)	(59,268)
EBITDA MRI	**60,005**	**71,043**	**87,228**	**95,867**	**102,382**
Interest (net)	62,614	64,979	68,381	70,828	72,785
Cover	**(2,609)**	**6,064**	**18,847**	**25,039**	**29,596**
%age	96%	109%	128%	135%	141%

6.5 We anticipate reaching break-even on an underlying EBITDA MRI measured against interest costs by 2021/22.

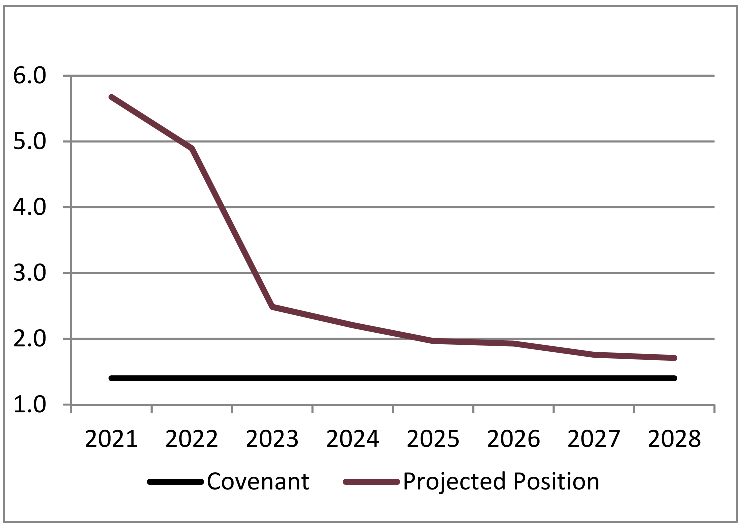
6.6 The funding covenants for the RSL Borrowing Group are presented in detail within Appendix 1. The position on three of the key covenants is shown below:

Interest Cover



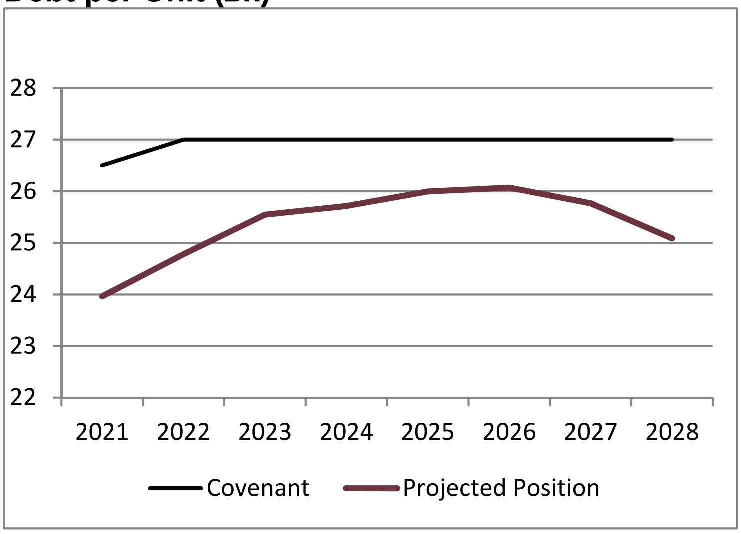
The interest cover covenant declines each year as the percentage of capitalised investment works in existing properties included as a deduction from operating surplus increases – from 50% in 2020/21, then 75% and finally 100% deduction by 2022/23. **Minimum headroom is forecast as £18.0m** in 2023/24.

Debt Service Cover Ratio



[redacted].

Debt per Unit (£k)



The profile of the debt per unit covenant was revised in 2018/19 to increase the maximum from £25,000 to £27,000. This increase supported an extension of our new build programme and will allow us to develop 4000 homes over the next five years. **Minimum headroom is £52m** in year 2025/26 when debt per unit peaks at c£26,070.

6.7 We have stress tested the covenants in the detailed sensitivity analysis set out in Appendix 1. This shows that the forecasts are resilient to a wide range of potential scenarios. In line with previous years, we have also included a list of potential mitigating actions in the appendix. These may form part of our response in the event of adverse conditions arising.

7. Key issues and conclusions

7.1 The updated financial projections, once approved, will set the overall borrowing framework for 2020/21. The figures in the first year of the projections will form the basis of the annual budgets which will be presented to the RSL subsidiary Boards for approval in March. Performance against these budgets will then be monitored through the normal course of Board reporting cycles.

8. Value for money implications

8.1 The top three priorities in our Group Value for Money Framework are repairs, home improvements and 24 hour customer service (in particular to vulnerable customers). These have been prioritised in our spending plans – with allocations for repairs and investment continuing to be at the core of our financial projections. We are working closely with our City Building joint venture to continue to improve the customer journey, changing the way customers can request repairs and modernising the delivery of the service.

8.2 Our frontline housing model, with 1:200 patch sizes and the Wheatley 360 wraparound service are key elements of our service provision. Support for vulnerable customers is prioritised through our Wheatley Foundation, Tenancy Support Service, and after a successful launch of the service in 2018/19, the expanded LivingWell offer for older customers. As an increasing number of our tenants will transfer onto Universal Credit in the coming years and we have continued the Helping Hand Fund provision in 2020/21, the Wheatley Foundation will also continue to provide money and welfare benefits advice to customers affected

9. Impact on financial projections

9.1 There are financial implications identified throughout the report together with any actions as necessary.

9.2 The financial projections for the RSL Borrowing Group, included in Appendix 1, include detailed sensitivity analysis, showing the impact of the key risks on the key financial parameters, including funding covenants, together with the types of mitigating actions we could take in the event that these risks materialise.

10. Legal, regulatory and charitable implications

10.1 There are no specific consultation requirements in relation to 2020/21 Financial Projections.

10.2 The RSL Borrowing Group Financial Projections will be submitted to WFL1 funders for information only. DGHP’s Financial Projections will be submitted to their funders and WFL2 funders will receive Lowther Homes Financial Projections.

10.3 The Wheatley Group Financial Projections will also be submitted to the credit rating agency (Standard and Poor's) ahead of their annual credit review of the Wheatley Group, scheduled to take place in April.

11. Implementation and deployment

11.1 There are no additional implementation issues.

12. Equalities impact

12.1 There are no specific equalities impacts from this report.

13. Recommendations

13.1 The Board is requested to:

1) approve the updated projections for investment in assets and services in support of our strategy, *Inspiring Ambition, Unleashing Potential*;
2) approve the updated RSL Borrower Group financial Golden Rules set out at paragraph 5.20 of this report;
3) approve the financial projections for each of the subsidiaries and City Building as attached; and
4) agree that the projected 2020/21 figures form the basis of next year's annual budgets for each subsidiary and the Group overall.

List of Appendices

Appendix 1 – WHG 2020/21 Financial Projections
Appendix 2 – GHA 2020/21 Financial Projections
Appendix 3 – Cube 2020/21 Financial Projections
Appendix 4 – WLHP 2020/21 Financial Projections
Appendix 5 – Loretto Housing 2020/21 Financial Projections
Appendix 6 – Dunedin Canmore 2020/21 Financial Projections
Appendix 7 – DGHP 2020/21 Financial Projections
Appendix 8 – Loretto Care 2020/21 Financial Projections
Appendix 9 – Lowther Homes 2020/21 Financial Projections
Appendix 10 – Wheatley Solutions 2020/21 Financial Projections
Appendix 11 – Wheatley Foundation 2020/21 Financial Projections
Appendix 12 – City Building (Glasgow) 2020/21 Financial Projections

[Appendices 9, 11 and 12 redacted]

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Wheatley Housing Group

2020/21 Financial Projections

Index

1. Strategic context

External environment	Customer priorities
• ***UK economy*** – confirmation of Brexit with the resultant reduction in uncertainty may result in an improvement in economic growth • ***Welfare reform*** – Implications of the wider roll out of Universal Credit to new claimants. • ***Government support for housing in Scotland*** continues with the budget 2020/21 providing funding to meet commitments on delivery of new affordable homes and energy efficiency • ***Care sector challenges*** – national minimum wage and funding cuts across services will make delivery of care services challenging	• ***Safe and well maintained homes and neighbourhoods*** – increasing references to anti social behaviour in customer feedback highlights need to maintain concierge presence and CIP funding. • ***Quality of services*** – customer feedback sights quality of service as key priority, in particular in relation to the NETS and repairs service. • ***Affordable rents*** – household income continues to be under pressure with employment still difficult for some of our customer groups and very low wage inflation over the last few years. • ***Efficient use of resources*** – getting things right first time seen as key to getting value for money for the rent they are paying.
Financial sustainability	**Key challenges**
• ***Credit rating & funding relationships –*** maintaining our credit rating and credibility in the market place will require us to deliver our planned financial results including operational efficiency savings • ***Surplus generation*** – the group needs to deliver planned savings in order to achieve and maintain a sustainable level of interest cover headroom. • ***Debt servicing and compliance*** – group funding arrangements allow operational flexibility but set clear financial parameters which need to be met going forward (e.g. financial covenants).	• ***Operational performance*** – continued focus on performance improvement key to financial stability and becoming best in class. • Assessment of the impact of ***welfare reforms*** – new solutions and approaches required to maintain rent collection levels. • ***Growth*** – uncertainty on grant availability post 2021 may require alternative funding solutions to deliver development programme • Making resources available for ***additional capital investment whilst keeping rents affordable*** – efficient use of resources and access to low cost borrowing are key. • ***Care environment*** evidences significant pressure given funding constraints and impact of living wage • ***Ongoing investment in services*** – increased use of technology and services designed to meet customer needs.

2. Wheatley Housing Group

The financial projections for the Wheatley Housing Group have been developed based on the detailed projections prepared for each of the subsidiaries within the Group. Assumptions used are therefore specific to each subsidiary with the exception of general economic assumptions such as inflation which are common to all companies.

The following projections are comprised of all companies within the Group including Dumfries and Galloway Housing Partnership which joined the Group in December 2019

Financial Projections – next 5 years

Statement of Comprehensive Income

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Tax	(279)	(303)	(311)	(346)	(360)
Surplus for the Year	**17,671**	**6,943**	**16,111**	**39,183**	**56,088**

Turnover

As a result of accounting rule changes from April 2015, grant income is recognised as part of turnover in the projected Statement of Comprehensive Income. Under the previous method of preparing accounts, grant income was accounted for in the Balance Sheet within fixed assets. Grant funding is recognised as income upon completion of the properties resulting in a high turnover in years where a higher number of properties are completed.

Underlying turnover, excluding grant income, is forecast to increase by 18.2% over the period from £348m to £411m primarily as a result of projected growth in stock numbers and rental increases.

Operating Expenditure

Operating costs are projected to reduce in real terms over the next three years as a result of efficiencies in employee and running costs and repairs. Costs in the initial years are also higher as a result of short term one off costs such as demolition costs and initiatives. In years 4 and 5 operating costs increase due to the additional costs associated with new build. The movement in operating costs in real terms is demonstrated in the table below.

	2020-21	2021-22	2022-23	2023-24	2024-25
Operating Cost*	£300m	£298m	£294m	£297m	£299m

**Adjusted to exclude inflation*

Other Income and Gains

This includes projected gains on revaluation of investment property. The movements reported primarily reflect forecast movements in the value of the RSL owned mid-market rent properties with the variation due to number of properties completing in year and the assumed value versus cost of construction.

Operating Surplus

Due to the inclusion of grant income and valuation adjustments on investment properties, the operating surplus is forecast to fluctuate over the five year period. Excluding the impact of the accounting change in respect of new build grant income and valuation movements, the operating surplus is projected to increase from £48m in 2020/21 to £74m in 2024/25. This is equivalent to an increase in operating margin from 14% to 18% and is driven by increasing rental income and a continued focus on delivering a cost efficient customer offering.

Funding Costs

While the current group funding arrangements and low variable interest rates have reduced the average cost of borrowing across the group, overall funding costs are assumed to increase over the period as a result of the additional borrowing required to fund the planned development programme together with expected increases in the variable rate.

Surplus for the Year

Overall it is expected that the group will generate a surplus of £17.7m in 2020/21. This is projected to increase over the five year period to £56.1m due to increases in turnover as a result of increasing property numbers and rent increases and efficiency savings achieved on operating expenditure.

Statement of Financial Position

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Housing & Investment Properties	2,637,293	2,738,222	2,841,145	2,934,680	3,034,969
Other Fixed Assets	52,617	50,367	47,829	46,068	45,218
Total Fixed Assets	**2,689,910**	**2,788,589**	**2,888,974**	**2,980,749**	**3,080,187**
Debtors Due < 1 year	47,682	47,758	46,736	46,378	46,371
Cash	62,014	47,933	31,616	31,644	31,752
Creditors Due < 1 year	(144,579)	(161,311)	(164,241)	(158,415)	(144,417)
Net current assets/(liabilities)	**(34,883)**	**(65,620)**	**(85,889)**	**(80,393)**	**(66,294)**
Loans – Bank & Bond	(1,513,706)	(1,572,726)	(1,634,649)	(1,690,552)	(1,745,706)
Loans - SG	(39,211)	(41,192)	(43,272)	(45,458)	(47,754)
Provisions for liabilities & charges	(3,905)	(3,905)	(3,905)	(3,905)	(3,905)
Pension Liability	4,004	4,004	4,004	4,004	4,004
Long Term Liabilities	**(1,552,818)**	**(1,613,819)**	**(1,677,822)**	**(1,735,911)**	**(1,793,360)**
Net Assets	**1,102,208**	**1,109,151**	**1,125,262**	**1,164,445**	**1,220,533**
Capital & Reserves	**1,102,208**	**1,109,151**	**1,125,262**	**1,164,445**	**1,220,533**

Fixed assets and investment properties

Over the five year period the value of housing and investment properties are forecast to increase by £513m (20%). This is due to the additional 4,007 new units forecast to be completed over the period in addition to the capital investment programme.

Net Current Assets / (Liabilities)

Debtors due within a year are assumed to rise in first two years due to assumed increases in rent debtors to provide for the impact of Universal credit and other welfare reforms. In later years a small reduction in rent debtors has been projected as tenants adapt to the new benefit system.

Under the current accounting rules for housing assets, grant received in respect of new build is recognised within the Statement of Financial Position as deferred income and included within Short Term Creditors while under construction. On completion it is transferred to the Statement of Comprehensive Income. The relatively high level of short term creditors and fluctuations from year to year are the result of both the scale and completion profile of our development programme.

Long Term Liabilities

Bank and bond funding is expected to increase by £245m over the period as a result of the additional borrowing required to fund the development programme. Loans from SG includes the repayable grant received from the Scottish Government. This is reported at fair value which increases year on year until repayment is due. Other long term liabilities remain relatively constant over the period.

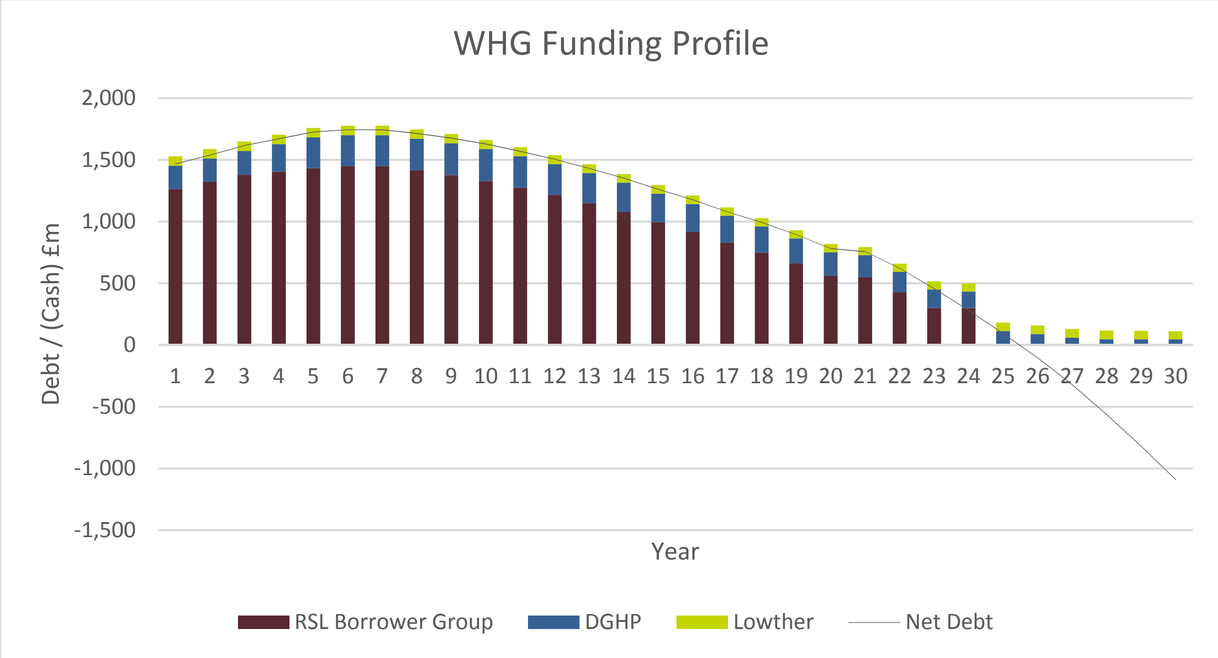
Net Assets

DGHP joined the group in December 2019, increasing the Net Assets by over £200m. The Net Asset figure for 2020/21 of £1,102m reflects the forecast surplus of £17.7m in 2020/21. Net Assets are expected to increase over the five year forecast period as a result of growth in housing properties and increasing surpluses from operating activities.

Funding and Key Financial Ratios

The table and graph below shows the key funding indicators for the group as a whole as well as each of the individual borrowers.

	WHG Group		RSL Borrowing Group		DGHP		Lowther Homes	
Gross Peak debt (£/year)	£1,776.3m	6	£1,449.3m	6	£258.8m	10	£76.5m	1
Net Peak debt (£/year)	£1,744.2m	6	£1,434.3m	6	£253.8m	10	£70.9m	8



This shows that WHG's cash flows can support the projected borrowing requirement, incorporating additional asset growth funded from planned funding.

The following sections give more details of the assumptions for the subsidiaries.

3. RSL Borrowing Group

Background/Assumptions

The RSL borrowing group includes all of the RSLs within the Group with the exception of Wheatley Housing Group and Dumfries and Galloway Housing Group (DGHP). While DGHP became a member of the Wheatley Group in December 2019, they currently have separate funding arrangements. It is anticipated however that, subject to lender consent, DGHP will join the borrower group at some point in the near future. Section 4, therefore sets out the key assumptions and financial projections for DGHP and the potential impact on the borrower group.

<u>Stock numbers</u>
Between them GHA, Cube, WLHP, Loretto Housing, Barony and Dunedin Canmore Housing (DCH) currently own or manage approximately 51,100 properties for social rent, 880 mid market rent houses, which are leased to Lowther Homes, and 380 shared ownership or shared equity properties. During 2019/20 tenants of Barony Housing Association were consulted on a proposed transfer of their tenancies to Dunedin Canmore and WLHP and following a successful ballot it was agreed that ownership of the 350 properties would transfer in April 2020.

Of the 51,100 social housing units there are 117 properties which are classified for demolition. These relate to the GHA owned properties at Gallowgate which are expected to be handed over to the contractor in 2020/21, following completion of the adjacent new build development. There is no income included in the projections in respect of these properties.

The closing date for applications for tenants' right to buy their properties was July 2016 as set out in the Housing (Scotland) Act and the final outstanding right to buy sales completed in 2018/19. There are no further right to buy sales assumed within the projections. It is however assumed that 41 properties owned by Barony, assumed to transfer to DCH on 1st April 2020, will be sold over the first two years. These properties do not allow for tenants residing in the accommodation to live independently and a disposal and re-provisioning strategy was approved by the Barony Board.

While a small number of properties will be lost in the next two years, the plan projects an increase in social housing units as a result of our development and acquisition programme. During 2019/20 it is anticipated that this development programme will have delivered over 700 new homes for social housing including the remaining units to meet commitments made by GHA as part of the original stock transfer from Glasgow City Council. Over the first five years, an additional 2,014 new properties for social rent will be completed as part of this programme with a further 1,079 in the period to 2027/28. This will be funded through a combination of the group funding arrangements put in place in 2014, additional funding raised over the last two years from Black Rock, EIB, Allia and HSBC, and the proceeds from the sale of 562 mid-market rent properties to Lowther Homes in 2018/19. Combined with individual acquisitions, the overall development programme is expected to deliver 2,034 additional social housing properties over the next five years. The table below shows the forecast closing social housing stock numbers for the next five years by RSL.

Closing Stock	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
GHA	39,790	39,953	40,001	40,096	40,171	40,301
Cube	3,723	3,723	3,798	3,905	3,964	3,964
WLHP	749	911	962	1,014	1,040	1,040
Loretto	1,443	1,443	1,533	1,589	1,619	1,619
DCHA	5,429	5,403	5,548	5,721	5,944	6,086
Barony	Properties transferred to DCH and WLHP					
Total	**51,134**	**51,433**	**51,842**	**52,325**	**52,738**	**53,010**

The 879 mid-market rent properties forecast to be owned by the RSLs in April 2020 reflect the completion of 232 new units during the year. Over the next five years it is projected that a further 990 units properties will be completed, funded from the proceeds of the Lowther transaction and existing funding facilities. No additional sales have been built into the projections so by the end of 2024/25 it is forecast that 1,869 mid-market rent properties will be owned by the RSLs. In line with existing arrangements, these will be leased to and managed by Lowther Homes.

<u>Income</u>

Rental income represents on average 93% of the RSL borrowing group's turnover (excl. development grants). Rental income has been estimated based on current average weekly rents adjusted for agreed rent increases to be applied in April 2020. The April 2020 increase approved by all subsidiary boards was 3.4%. The rent growth assumption for subsequent years is shown in the table below:

	2020-21	2021-22	2022-23	2023-24	2024-25	2025 on
Rent Increase	3.4%	3.5%	3.5%	3.5%	3.5%	3.5%

Gross rental income will be reduced by voids, bad debts and arrears. These have been forecast based on current performance and include additional provisions for the potential impact of welfare reforms. The table below shows the assumed average percentage of rent lost across the group.

Performance	2020-21	2021-22	2022-23	2023-24	2024-25
Voids	1.3%	1.2%	1.2%	1.2%	1.2%
Bad Debts	1.9%	1.9%	1.9%	1.9%	1.9%

A provision has also been made for an increase in arrears of £5m over the first two years of the projections to allow for the potential impact of Universal Credit and other benefit changes. This represents an increase in the provision compared to last year's financial projections and reflects our experience and expectations going forward including an increase in the number of tenants anticipated to move onto universal credit.

In addition to rental income from social housing, the RSL group receive income from a number of other sources including lease income from mid-market rent properties managed by Lowther Homes, commercial properties and office rents as well as the provision of additional services such as heating, furnished lets and home contents insurance.

Barony HA, who joined the group in April 2016 operate a number of care services for which we receive substantial funding predominantly from Local Authority grants. One of the key themes in our strategy for 2020-2025, *Inspiring Ambition, Unleashing Potential*, is creating customer value and shaping care services for the future. As part of this, extensive work was undertaken during 2019/20 to look at formally combining Barony's care operations with those of Loretto Care, creating a single Care company. It is anticipated that the transfer of Barony care operations into Loretto Care will occur by 1st April 2020 therefore, income and expenditure in relation to Barony's care operations have therefore been excluding from the Borrower Group projections.

<u>Operating Expenditure</u>

Management costs

The previous financial projections assumed significant management cost savings, both in terms of employee and running costs, to be achieved over the early years of the forecast. Whilst we have consistently delivered on our targets in previous years, further savings are still to be achieved over the next five years. These will be achieved through proactive people management, the use of technology to work smarter, implementation of our office accommodation strategy and procurement savings.

These savings allow the Group to keep rents affordable for tenants while delivering on our strategic aim of delivering an exceptional customer experience by maintaining and improving frontline services. Employee costs continue to reflect a ratio of 1 Housing Officer to every 200 properties and our Wheatley 360 model which co-ordinates a number of teams including our housing advice and furnished lets teams and community improvement partnership through a single Group wide structure allowing it to deliver excellent, flexible services which are rooted in local communities.

In addition to assumed savings in the RSLs further reductions in back office costs are assumed over the next few years. These savings are passed on to the RSLs through reduction in the charge from Wheatley Solutions.

The table below shows the profile of employee costs, running costs and group recharges over the first five years including assumed inflation and pay uplifts.

£000s	2020-21	2021-22	2022-23	2023-24	2024-25
Employee Costs					
– Direct RSL	44,690	45,361	43,018	43,930	44,896
– Solutions Recharge	14,945	14,726	14,881	15,209	15,543
Total	**59,635**	**60,087**	**57,899**	**59,139**	**60,440**
Running Costs					
– Direct RSL	10,588	10,683	11,011	11,287	11,282
– Solutions Recharge	9,553	9,674	9,940	10,239	10,546
Total	**20,141**	**20,357**	**20,951**	**21,526**	**21,828**

In order to deliver the planned savings a provision of over £3.2m has been included over the five year period for organisational restructure costs including early retirement and voluntary redundancy (ER/VR) payments. This will include payments in respect of ER/VR for Wheatley Solutions staff who, while seconded to Solutions, are employed by the RSLs within the Group. As employer the relevant RSL will be responsible for any costs associated with ER/VR.

Repairs and Maintenance

The repairs service has been identified as one of our top drivers of value for money perceptions among customers. One of our key strategic priorities is therefore to continue to provide an excellent repairs service which meets customer expectations, protects our assets and fully complies with all current and future safety standards and regulatory requirements.

In order to maintain and build on our customers already high satisfaction levels with the repairs service delivered, while also meeting the increasing legislative compliance obligations being placed on us, we increased the funding for repairs in last year’s financial projections. This level of funding has been maintained going forward. Operational efficiencies continue to be assumed in the west of Scotland through closer collaboration with our joint venture entity City Building (Glasgow) LLP however these efficiencies will enable us to continue making improvements to the service, delivering more for our customers.

The table below shows the average cost per unit (£) assumed for repairs and maintenance including inflation.

	2020-21	2021-22	2022-23	2023-24	2024-25
Repair cost per unit	765	784	807	831	850

This table shows a general increase in the cost per unit over the five year period as assumed inflationary increases offset efficiencies achieved. The majority of efficiencies assumed will be delivered via our joint venture entity City Building (Glasgow) LLP. City Building Glasgow’s updated Business Plan is projecting an increase in the discount on repair costs achieved compared to the targets agreed when the joint venture was established as a result of efficiency savings achieved over the last year and increased work from DGHP. In 2020/21 it is anticipated that the discount will be £3.6m, an increase of £0.6m compared to the original targets.

Demolition Costs

Within our projections it is assumed that 117 properties will be handed over to a contractor for demolition during 2020/21. Costs associated with the demolition, including the physical demolition cost, site security and home loss and disturbance payments made to tenants have been estimated and reflected within the projections. These costs have been estimated at £1.1m with this assumed to be incurred in the first year.

Other Provisions

The financial projections include a commitment to invest in the communities in which our tenants live and funding to help tenants who are struggling in the current economic climate. Over the next five years the RSL Borrowing Group financial projections include provisions for the following:

- A Helping Hand Fund of £600k in the first year of the plan to assist those in financial difficulty, particularly those moving in and out of employment or whose benefits are affected by the introduction of Universal Credit.
- Better Lives Funding totalling £2.0m over the first five years of the projections. This is currently managed and distributed locally to fund community initiatives and projects.
- The interest due to GHA on its £30m convertible loan will be paid directly to the Foundation as GHA's contribution towards its activities. Combined with direct donations to the Foundation of around £800k per annum, this will support projects and initiatives including educational attainment, tackling poverty, social inclusion, employability, sports and arts which will benefit tenants across the Group.
- £1.4m per annum for tenancy support services provided by Group subsidiary Loretto Care
- £2.3m each year to fund our community improvement partnership with the police and fire service as well as the wider cost of the service

Operating Cost per Unit

The table below shows operating expenditure excluding inflation and depreciation and average stock

	2020-21	2021-22	2022-23	2023-24	2024-25
Operating Expenditure	**140,102**	**138,584**	**131,710**	**131,715**	**130,939**
Average Stock (Social)	51,284	51,638	52,084	52,532	52,874
Operating Cost per Unit	**2,732**	**2,684**	**2,529**	**2,507**	**2,476**

This shows that over the five year period operating cost per unit reduces by over 9%. This is due to the significant efficiency savings assumed in management costs coupled with the growing stock base through our new build programme.

Investment & Growth

Capital investment programme

Significant investment in our housing properties has been completed over the past few years with all of our stock meeting or exceeding current housing quality standards and on track to meet energy efficiency standards. Our priority going forward is therefore to maintain this standard by engaging with our customers and delivering their priorities in terms of further improvements to their homes.

The planned programme of investment within the projections has been informed by our detailed knowledge of the stock, investment priorities identified by our customers, and the latest stock condition surveys. During 2019/20 a full refresh of our five year investment programme was undertaken in collaboration with City Building (Glasgow) LLP, our joint venture vehicle who will deliver the majority of works in the west of Scotland, and Dunedin Canmore's investment team operating in the east. This revised programme is intended to ensure on going lifecycle component replacements and compliance works are carried out and that funding is separately identified for the delivery of customer identified investment priorities.

The table below shows the investment assumed by each of the subsidiaries over the five year period, including VAT, fees and inflation.

Stock Improvement programme £000s	Year 1 2020-21	Year 2 2021-22	Year 3 2022-23	Year 4 2023-24	Year 5 2024-25	Total Years 1-5
Component Replacement	11,552	14,981	14,985	17,973	20,466	**79,957**
New Legislative Requirements	7,452	2,603	3,009	2,351	4,797	**20,212**
Strategic Projects	19,645	18,635	17,195	15,251	12,143	**82,870**
Total Stock Improvement Programme	**38,649**	**36,219**	**35,189**	**35,575**	**37,407**	**183,040**
Capitalised Repairs	12,946	13,283	13,655	14,064	14,498	**68,446**
Medical Adaptations & Other Costs	6,762	6,924	7,070	7,195	7,363	**35,313**
Total Capital Investment	**58,357**	**56,426**	**55,914**	**56,834**	**59,268**	**286,798**

New Build

The table below shows the projected costs and grant income, including inflation, to deliver the growth assumed within the plan

	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Units Completed						
- Social	422	424	483	413	272	**2,014**
- MMR	244	175	141	253	177	**990**
Total	**666**	**599**	**624**	**666**	**449**	**3,004**
Development Costs* £000s						
- Social	68,466	83,133	71,126	55,274	63,653	**341,651**
- MMR	35,493	30,999	31,132	26,407	22,919	**146,949**
Total	**103,959**	**114,132**	**102,258**	**81,680**	**86,572**	**488,601**
Grant Income £000s						
- Social	44,688	47,023	28,250	31,206	34,546	**185,713**
- MMR	15,278	12,970	6,763	10,327	6,512	**51,850**
Total	**59,966**	**59,993**	**35,013**	**41,534**	**41,058**	**237,563**

**excludes staffing, development fund and individual acquisitions*

In addition to this a development fund provision of £2.1m has been assumed to support our development programme. An allowance of £1m for the acquisition of individual properties has also been included which is projected to deliver a further 20 units.

Our new Group Strategy, *Inspiring Ambition, Unleashing Potential*, includes an aim to deliver 5,500 new homes to 2025. Our current loan covenants provide capacity for the 3,004 units above in the RSL Borrowing Group, as well as 1,000 new homes in DGHP. During the next 2 years we intend to discuss a potential increase in the debt per unit covenant with our lenders, with a view to providing new capacity to increase affordable housing delivery by a further 1,500 homes.

The table above highlights that between 2021-22 and 2024-25, we assume £178m of grant income to support these 3,004 homes. A continuation of the Scottish Government's current approach to grant funding after the next Scottish Parliamentary elections in 2021 is therefore crucial to our ability to deliver these homes.

Cost inflation

Inflation during 2019/20 continued on a downward trend, and in December 2019 RPI was reported at 2.2% with CPI at 1.3%, a reflection of weakening demand from households in their discretionary spending as a result of a number of uncertainties across the wider UK economy. However, markets are expecting inflation to rise in 2020/21 and we have held our expectation for cost inflation to move upwards to 3% retaining an element of prudence in our forecasts.

The general cost inflation rate (RPI) assumed within the financial projections are shown in the table below. This will apply to the majority of costs, with the main exception being salary costs which are assumed to increase by 2.2% each year.

	2020-21	2021-22	2022-23	2023-24	2024-25
General cost inflation rate	3.00%	3.00%	3.00%	3.00%	3.00%

RSL Borrowing Group Financial Projections – next 5 years

The projected Statement of Comprehensive Income and Statement of Financial Position for the RSL borrowing group are shown below.

Statement of Comprehensive Income

	2020-21	2021-22	2022-23	2023-24	2024-25
Turnover	**303,985**	**313,867**	**329,870**	**343,564**	**341,513**
Operating Expenditure	(222,286)	(229,295)	(230,815)	(239,019)	(247,009)
Other Income & Gains	(14,233)	(6,089)	(4,712)	(9,913)	(6,742)
Operating Surplus	**67,466**	**78,483**	**94,344**	**94,633**	**87,762**
Operating Margin	22%	25%	29%	28%	26%
Gain/Loss on disposal of fixed assets	1,060	8	0	0	0
Finance Charges	(64,073)	(66,226)	(69,323)	(71,637)	(74,142)
Movement in valuation of social housing properties	7,909	16,848	13,480	25,465	42,229
Total Comprehensive Income	**12,363**	**29,113**	**38,501**	**48,460**	**55,850**

Turnover
Turnover is forecast to increase over the first four years as a result of assumed rent increases and income received from the additional properties completed. The reduction between years 4 and 5 is due to a reduction in grant income recognised in respect of our new build programme.

Operating Expenditure
Operating expenditure is projected to increase steadily over the period as inflationary increases and provisions for new units delivered through the development programme offset the management cost savings assumed. In real terms i.e. excluding inflation and depreciation operating cost per unit will decrease by 9% over the five years.

Operating Surplus (Margin)
It is projected that the RSL Borrowing Group will make an operating surplus in all years with this fluctuating over the period due to movements in new build grant recognised and assumed valuation adjustments in investment properties. These movements result in the margin fluctuating between 22% and 29% over the five year period. Excluding the impact of grant income and valuation adjustments, the underlying operating margin increases from 14% in 2020/21 to 20% by 2024/25. This is due to increased turnover from new units and rent increases, and operating expenditure savings.

Funding Costs
Interest paid increases over the period as loans are drawn to fund the development programme and interest rates on variable rate funding are assumed to increase.

Total Comprehensive Income
It is projected that the RSL Borrower Group will make a surplus of £12.4m in 2020/21 with this increasing to £55.9m by year 5 as a result of additional income generated from new units, operating cost efficiencies and assumed increases in the value of properties following investment works.

Statement of Financial Position

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Housing Properties	1,978,974	2,068,388	2,141,210	2,186,325	2,259,594
Investment Properties	106,044	123,783	139,923	167,342	188,211
Other Fixed Assets & Investments	81,034	79,576	78,051	78,035	78,413
Total Fixed Assets	**2,166,052**	**2,271,746**	**2,359,184**	**2,431,703**	**2,526,218**
Debtors Due < 1 year	44,639	44,645	43,551	43,120	43,039
Cash	15,000	15,000	15,000	15,000	15,000
Creditors Due < 1 year	(114,201)	(130,353)	(118,430)	(113,030)	(121,638)
Net current assets/(liabilities)	**(54,562)**	**(70,707)**	**(59,880)**	**(54,910)**	**(63,599)**
Loans	(1,287,680)	(1,348,116)	(1,407,880)	(1,436,909)	(1,466,886)
Pension Liability	8,483	8,483	8,483	8,483	8,483
Other Creditors & Provisions	(1,245)	(1,245)	(1,245)	(1,245)	(1,245)
Long Term Liabilities	**(1,280,442)**	**(1,340,878)**	**(1,400,642)**	**(1,429,670)**	**(1,459,647)**
Net Assets	**831,048**	**860,161**	**898,662**	**947,122**	**1,002,972**
Capital & Reserves	**831,048**	**860,161**	**898,662**	**947,122**	**1,002,972**

Housing and Investment Properties

Housing and investment properties are projected to increase in value by 22% to just over £2.4bn over the five year period as a result of value added through investment in existing stock and additional units developed.

Other Fixed Assets and Investments

Other fixed assets relate to offices, community infrastructure, IT equipment, motor vehicles and fixtures and fittings. These remain relatively steady over the period as additional investment is offset by depreciation.

Other investments relate primarily to the £30m unsecured convertible (to ordinary shares) loan from GHA to Lowther Homes.

Current Assets/Liabilities

Short term debtors are forecast to increase over the first two years primarily as a result of assumed increases in rent arrears of £5m. This increase is intended to provide for the potential impact of welfare benefit reforms and in particular the full roll out of Universal Credit. In later years a gradual reduction in arrears has been assumed resulting in a decrease in debtors.

Movements in short term creditors relate predominantly to grant received in respect of housing under construction. This is recognised as deferred income until the units are completed at which point it is transferred to the Statement of Comprehensive Income as part of Turnover.

Cash is assumed to be subject to a minimum balance of £15m. The balance held is higher in years where debt has been issued but has yet to be fully utilised to fund the development programme.

Long Term Liabilities

The loan figure shown above includes private funding provided by WFL1 net of loan fees in addition to a repayable £100m Scottish Government Grant. This figure increases over the period as additional borrowing is required to fund the development programme. The Scottish Government Grant is reported at fair value with the value increasing each year until the repayment date.

Reserves

Reserves are expected to increase year on year due to the forecast surpluses combined with increasing asset values as a result of investment and growth.

Cashflow strength

A continued focus within the RSL borrowing group remains on absolute cash generation capacity. When considering our position we look to the amount of cash that the business generates from its operations, strip out accounting adjustments, and deduct the costs invested through our repairs and on-going capital maintenance programme. This calculation we base on our Earnings before Interest, tax, depreciation and amortisation (EBITDA) and then deduct our major capitalised repairs – this being defined as EBITDA-MRI

The table below shows the projected EBITDA MRI relative to interest for the first five years

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Turnover	258,464	270,211	282,873	296,630	309,022
Operating Costs (excl Depreciation)	(140,102)	(142,742)	(139,731)	(143,929)	(147,373)
EBITDA	**118,362**	**127,469**	**143,142**	**152,701**	**161,649**
Capital Stock Improvements	(58,357)	(56,426)	(55,914)	(56,834)	(59,268)
EBITDA MRI	**60,005**	**71,043**	**87,228**	**95,867**	**102,382**
Interest (net)	62,614	64,979	68,381	70,828	72,785
Cover	**(2,609)**	**6,064**	**18,847**	**25,039**	**29,596**
%age	96%	109%	128%	135%	141%

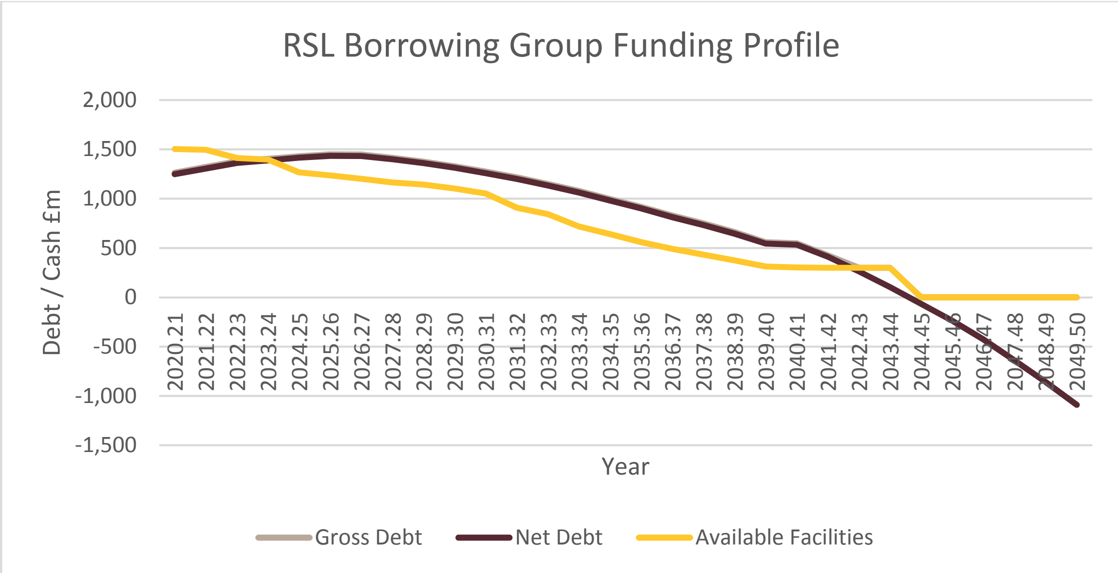
This demonstrates a steady improvement over the period as efficiency savings in operating costs are achieved and additional income is generated from new units and rent increases. Interest costs are forecast to increase over the period as borrowing increases however our projections show there will be sufficient income to cover this by 2021/22.

Funding and debt profile

The financial projections for the RSL borrowing group reflect the new group funding arrangements through Wheatley Funding Limited 1 (“WFL1”). Each RSL borrows from WFL1 under intra-group loan agreements at an all in funding rate representing total external funding costs incurred by WFL1. Pooled assets of all the RSLs are charged in security to support WFL1’s borrowings and there are cross guarantees between the RSLs on the borrowing group. Each RSL needs to maintain financial viability in its own right and this is achieved by ensuring that their individual cash flows and assets are sufficient to support their own debt.

The table and graph below show the key funding indicators and profile for the RSL Borrowing Group.

Key Funding Indicators	
Peak Debt (Gross)	£1,449.3m
Peak Debt (Net)	£1,434.3m
Peak Debt Year	Year 6
Closing Cash	£1,090.5m



Key financial parameters / covenants

As part of the RSL borrowing group funding arrangements, financial covenants that need to be met are set out below:

		2020-21	2021-22	2022-23	2023-24	2024-25
DSCR	RSL GROUP	5.7x	4.9x	2.5x	2.2x	2.0x
	Target (> than)	**1.4x**	**1.4x**	**1.4x**	**1.4x**	**1.4x**
Interest Cover (Banks)	RSL GROUP	144.1%	131.1%	127.6%	135.4%	140.7%
	Target(> than)	**110%**	**100%**	**100%**	**110%**	**110%**
Interest Cover (Bond)	RSL Group	1.8x	1.9x	2.0x	2.1x	2.2x
	Target(>than)	**1.1x**	**1.1x**	**1.1x**	**1.1x**	**1.1x**
Debt per Unit	RSL GROUP	£23,963	£24,779	£25,547	£25,714	£25,996
	Target(< than)	**£26,500**	**£27,000**	**£27,000**	**£27,000**	**£27,000**
Debt Service	RSL GROUP	13.5	13.2	14.7	13.2	11.1
	Target (< than)	**19**	**18**	**17**	**16**	**15**

The table above shows that based on the RSL Borrowing Group projections all funding covenants will be met.

The RSL Borrower Group is funded on a ‘secured’ basis and as a result the housing assets of the RSL borrower group need to be of sufficient value to provide security cover for the borrowing within WFL1. The 2018/19 external valuations adjusted for new build properties delivered within the year and the security charging exercises currently ongoing, project a surplus funding capacity of circa £99m at the start of 2020/21 to support additional debt. This capacity increases as the development programme progresses and there is sufficient value to cover all the new funding tranches modelled in the business plan.

4 Dumfries & Galloway Housing Partnership

Background/Assumptions

These financial projections are based on DGHP's existing business plan and have been updated to reflect it being part of Wheatley Group. Key tenant promises and the value DGHP expects to gain directly from partnership are reflected in the projections including:

- additional investment capacity for communities through an accelerated home improvement programme;
- keeping rents more affordable than they would otherwise have been;
- hundreds of new homes across the region including many designed for older people;
- an expanded range of excellent services.

Assumptions have been made to reflect these commitments and, in general, a prudent approach has been adopted. These assumptions are documented here and include:

- The development of 1,000 new homes over the next 5 years
- Planned rent increases limited to 2% a year for the next 3 years
- £0.7 million a year in additional investment in staff and services from 2020/21 to reflect an enhanced frontline service model for tenants
- Keeping tenants safe through a robust programme of compliance works and delivering the levels of investment set out in the stock condition survey from 2019 in order to meet our Scottish Housing Quality Standard and Energy Efficiency Standard in Social Housing commitments
- New funding arrangements put in place in December 2019

The plan shows that in partnership with Wheatley Group, DGHP can make the anticipated investment, deliver on tenant promises, and service and repay its debt.

The key assumptions in the DGHP Partnership Business Plan are highlighted below. All figures include VAT and inflation, unless stated otherwise.

Stock numbers

As at December 2019 DGHP owned 10,344 homes for social and mid market rent comprising 6,995 houses and 3,349 flats (including 4 in a block). A provision has been made within the projections for the demolition of 350 of these properties, including approximately 100 poorly performing tenement flats mostly in north west Dumfries which are currently held as void and unlettable. It is assumed that over the first five years c.1,000 new units will be completed with 750 of these delivered as a result of the partnership with Wheatley Group.

The table below shows the assumed stock profile over the period.

Stock Numbers	Forecast							
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Units	10,344	10,361	10,362	10,472	10,792	11,147	11,097	11,047
New Build	17	51	160	370	405	-	-	-
Demolition		(50)	(50)	(50)	(50)	(50)	(50)	(50)
Closing Units	**10,361**	**10,362**	**10,472**	**10,792**	**11,147**	**11,097**	**11,047**	**10,997**

Rental Income

On average social rents as at December 2019 were £79.77 per week in the transfer stock and £93.43 for new build. DGHP's pre partnership 2019/20 Business Plan assumed that a rent increase of CPI +1.75% and CPI +1% would apply to transfer and new build properties respectively in April 2020, with an increase of CPI+1% assumed for all social housing stock in April 2021 and 2022. However, in line with commitments made to tenants as part of the partnership proposal, these increases have been reduced to 2% only for three years. Assuming CPI was 2% for the three years, this represents a reduction in rent of £3.15 on average per week in transfer stock and £2.95 in new build by 2022/23.

In subsequent years, increases have been assumed in line with Wheatley Group assumptions at 3.5% per annum however these will be reviewed at the time and may be reduced, in particular in the event that interest rates and inflation remain lower than our current conservative assumptions. They will always be subject to consultation with tenants each year. The table below shows assumed rent increases for business planning purposes only.

Rent Increase	2020-21	2021-22	2022-23	2023-24	2024-25 on
Transfer Stock	2.00%	2.00%	2.00%	3.50%	3.50%
New Build	2.00%	2.00%	2.00%	3.50%	3.50%

In addition to social housing, DGHP also collect £361k per annum of rental income in respect of garages and garage sites. This is assumed to increase in line with housing stock. A further £570k is projected to be received from the rental of 100 mid market properties. In line with grant conditions rent increases for mid market properties are linked to CPI, assumed at 2%.

<u>Operating Performance</u>

Void losses are assumed at 1% throughout for the core rented stock, in line with operational targets and current performance. For the 350 properties projected to be demolished a higher void rate has been assumed based on actual empty and unlettable units and expected time to clear.

The provision for bad debts has been assumed at 2% of gross rental income in 2020/21, which is conservative compared to our current performance of 1.5%. To manage the impact of Universal Credit this is assumed to increase to 2.5% by 2022/23. Void and bad debt assumptions are shown in the table below.

	2020-21	2021-22	2022-23	2023-24	2024-25
Voids (Retained Properties)	1.00%	1.00%	1.00%	1.00%	1.00%
Bad Debts	2.00%	2.25%	2.50%	2.50%	2.50%

Other Income

In addition to rental income, a further £1.7m is expected to be generated by DGHP in 2020/21 from other income streams. This includes service charge income, grant for medical adaptations, lease income, factoring and short term initiatives such as the Young Persons Project and Temporary Accommodation.

Staff and Other Management Costs

Staff costs have been based on the existing staffing structure with an additional provision of £0.7m per annum included from 2020/21 on to cover the potential impact of service and operating model development, such as an increase in the number of frontline posts. Total staff costs in 2020/21, including on costs are £8,982k with a provision of £515k in respect of any restructuring costs. No efficiency savings have been assumed in future years. A salary increase of 3% has been provided for in April 2020, as agreed between COSLA and the recognised Trade Unions. Thereafter salary costs are assumed to increase by 2.2% each year in line with assumptions across the group.

Other management costs are largely based on the 2019/20 forecast costs. The total spend on direct costs and overheads is projected to be £4,633k in 2020/21 with the main areas of spend being travel costs £523k, premises £618k, managed services £412k and insurance £592k. While it is anticipated that procurement savings will be achieved as a result of DGHP joining the Wheatley Group no assumptions have been made for these within the Business Plan.

Repair Costs

Our repairs service is a key priority for our customers and with our existing repairs contracts due to expire in Spring 2020. A dedicated project team has been established to bring repairs 'in-house' and good progress is being made including through specifying and implementing a repairs management system, in-depth demand analysis and dialogue with current suppliers on transition. It is expected that bringing repairs and maintenance in house will provide the opportunity to improve services for customers, ensuring most repairs are completed on the first visit. We also expect that this will generate a cost saving however, as the structure of the new service has yet to be finalised, no efficiency saving has been assumed within the financial projections although a reduction in the VAT payable has been recognised from 2021/22 at a prudent level of £0.5m a year. Costs for repairs and maintenance are therefore assumed in line with current contract costs at £11.4m per annum, increasing in line with inflation.

In addition, the plan allows £2.7m for compliance work in 2020/21, focusing on fire safety, asbestos management and electrical safety, with a further £5.3m by the end of 2024/25 and then an ongoing spend of £1m every year. An allowance of £200k per annum has also been included from 2020/21 on in respect of the new Handyperson service.

The table below shows the profile of spend, including assumed inflationary uplifts over the period.

Repairs and Maintenance	2020-21	2021-22	2022-23	2023-24	2024-25
Total Repair Costs £000s	14,281	12,233	13,259	13,672	14,326

Demolition Costs

The financial projections assume that 350 units will be demolished over the seven-year period from April 2021. Costs associated with the demolition, including the physical demolition cost, site security, home loss and disturbance and owner buybacks have been estimated and reflected within the financial projections. Over the period to 2027/28, the total costs in relation to demolition have been assumed at £4.2m. At this stage, this is a conservative assumption for business planning purposes only, and any demolition cases will require to be considered and approved by the Board on a case-by-case basis.

Capital Investment

Investment in current housing stock

The partnership with Wheatley has released significant new capacity to fund improvements to existing homes and build hundreds of new homes. The focus of the investment programme will be on ensuring we meet and maintain properties to current regulatory standards such as SHQS and deliver additional works to windows, roofs and external walls to meet the EESSH standard on energy efficiency. The additional funding made available through partnership will allow this work to be accelerated and will enable other works identified by tenants as a priority such as improvements to common areas in flats and environmental works such as new paths and fencing to be carried out.

The investment programme has also been informed by a detailed stock condition survey, the final version of which was completed in October 2019, with a total of £282m (excluding VAT, fees and inflation) included over the 30 year period.

The table below shows the profile of capitalised investment works (incl VAT, fees and inflation) over the first five years.

Stock Improvement Programme £000s	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Component replacement	10,043	10,344	10,996	10,763	10,289	**52,435**
Legislative requirements	644	663	0	0	0	**1,307**
Strategic projects	9,370	2,785	2,800	1,759	1,558	**18,272**
Total Stock Improvement Programme	**20,057**	**13,792**	**13,796**	**12,522**	**11,847**	**72,013**
Capitalised repairs	1,217	1,254	1,292	1,330	1,370	**6,464**
Medical Adaptations & Other Costs	740	663	683	703	652	**3,442**
Total	**22,014**	**15,709**	**15,771**	**14,556**	**13,869**	**81,919**

Investment in new housing

In addition to investment in existing homes, the additional funding made available through the partnership with Wheatley will enable us to invest in new homes. Under previous funding arrangements DGHP's development programme was restricted and it was anticipated that c.250 homes could be completed by 2025. As part of the Wheatley Group, DGHP's funding has been restructured to provide sufficient funding to allow the development of a further 750 properties. The development programme has been updated to reflect the latest delivery programme with the costs and grant income shown in the table below:

£000s	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Development Cost	12,434	15,243	43,841	58,636	36,633	166,786
Grant Income	3,449	5,261	29,916	34,047	11,738	84,411
Net Cost	**8,985**	**9,982**	**13,925**	**24,589**	**24,895**	**82,375**
Units Completed	17	51	160	370	405	1,003

Funding

[redacted]:

Financial projections – next 5 years
The tables below show the projected financial statements restated to bring the accounting policies applied in line with those used by the Wheatley Group.

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2020-21	Year 2 2021-22	Year 3 2022-23	Year 4 2023-24	Year 5 2024-25
	£'000	£'000	£'000	£'000	£'000
Net Rental Income	43,909	44,894	45,974	48,718	52,019
Other Income	1,677	1,285	808	772	789
Grant Income	1,367	3,967	14,636	34,334	34,529
Total Income	**46,954**	**50,146**	**61,419**	**83,823**	**87,338**
Management Costs	(12,284)	(12,434)	(12,723)	(13,047)	(13,741)
Repairs & Maintenance	(14,281)	(12,233)	(13,259)	(13,672)	(14,326)
Bad Debts	(922)	(1,055)	(1,186)	(1,260)	(1,344)
Depreciation	(9,003)	(10,196)	(11,126)	(12,549)	(14,396)
Other Costs	(810)	(248)	(574)	(826)	(851)
Operating Expenditure	**(37,301)**	**(36,167)**	**(38,867)**	**(41,354)**	**(44,658)**
Gain on Investment Properties	74	75	76	76	77
Operating Surplus	**9,727**	**14,055**	**22,627**	**42,546**	**42,757**
Operating Margin	**21%**	**28%**	**37%**	**51%**	**49%**
Net Finance Costs	(6,211)	(6,259)	(6,260)	(7,390)	(9,147)
Movement in Value of Social Housing	1,467	(30,211)	(39,454)	(45,244)	(34,351)
Total comprehensive income	**4,984**	**(22,414)**	**(23,087)**	**(10,089)**	**(740)**

The information presented in the table above includes inflation.

Income

Net rental income is projected to grow over the period as a result of assumed rent increases and the additional properties completed as part of the development programme.

Other income includes grants and funding received for specific short term initiatives in addition to monies received from tenants and factored owners in respect of services provided. The reduction over the period is due to funding for certain initiatives such as temporary accommodation and RHI grants coming to an end.

In line with WHG's accounting policies, housing properties are assumed to be carried at valuation with assumed movements reported in comprehensive income. As properties are carried at valuation, under FRS102, grants received in respect of new build developments are released to the statement of comprehensive income in full on completion of the properties using the performance method. This differs from DGHP's previous accounting policy whereby grant would be released over the life of the asset.

Operating Expenditure

Staffing costs have been updated to reflect the draft proposed staffing structure with additional costs of £0.7m per annum included from April 2020 to fund an increase in posts. No further staff changes are assumed thereafter. Overheads are projected to remain constant over the period, increasing in line with inflation. It is anticipated that there will be some procurement savings from joining Wheatley Group however these have not been assumed within the financial projections.

Repairs and maintenance and major repairs are higher in the first year due to provisions for compliance works. Excluding these, repair costs are assumed to remain relatively stable and are in line with current contract costs. Efficiency savings anticipated from bringing the repairs service in house have not been reflected however a saving of £0.5m in respect of VAT on the employee element of repair costs has been included from 2021/22.

Other costs include a provision of £0.5m in the first year for restructuring, short term costs related to temporary accommodation and the expected cost of demolitions.

Operating Surplus

DGHP are projected to make an operating surplus in all years with this increasing initially as provisions for the cost of compliance works reduce and grant income recognised in turnover in respect of new build increases. The operating margin of 21% in 2020/21 is expected to increase to over 50% by 2023/24.

Funding costs

Funding costs reflect the rates as specified in the loan agreements for the new facilities put in place in December 2019 together with the existing THFC and Allia loans. There is a modest increase in interest payable each year as a result of increased borrowing to fund the development programme and assumed increases in variable interest rates.

Comprehensive Income

From 2021/22 on, total comprehensive income is showing a deficit primarily as a result of the assumed reduction in valuation of social housing properties. This reduction in valuation arises from the difference between the EUV-SH valuation of new build properties compared to the gross cost of development. Over the medium to longer term, increases in income as a result of the development programme are projected to offset this and DGHP moves back into surplus.

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25
	£'000	£'000	£'000	£'000	£'000
Housing assets	404,137	397,146	410,214	430,312	435,471
Investment Properties	7,494	7,569	7,645	7,721	7,798
Other Fixed Assets	1,903	2,597	2,774	1,957	1,358
Total Fixed Assets	**413,534**	**407,311**	**420,633**	**439,991**	**444,628**
Current Assets	37,596	23,941	7,753	7,807	7,861
Current Liabilities	(17,097)	(18,546)	(33,983)	(33,857)	(11,229)
Net Current (Liabilities)/Assets	**20,499**	**5,395**	**(26,230)**	**(26,050)**	**(3,368)**
Long term liabilities	(192,101)	(193,189)	(197,973)	(227,599)	(255,658)
Provisions (LGPS Pension)	(3,743)	(3,743)	(3,743)	(3,743)	(3,743)
Net Assets	**238,189**	**215,775**	**192,688**	**182,599**	**181,859**
Total Reserves	**238,189**	**215,775**	**192,688**	**182,599**	**181,859**

The information presented in the table above includes inflation.

Fixed Assets

In accordance with Wheatley Housing Group's accounting policy housing properties have been forecast at valuation with the opening valuation based on the figures provided by Savills. Over the period shown above, housing and investment properties are expected to increase by 16% as a result of planned investment in existing stock and in new properties.

Other Fixed Assets include fixtures and fittings and IT Equipment, the value initially increases as a result of assumed investment in office accommodation and IT before decreasing in the later years as annual depreciation charges exceed additions.

Net Current (Liabilities)/Assets

Current assets includes rent and other debtors and cash balances with the reduction in assets over the period predominantly due to a reduction in cash. DGHP had cash balances of £53m as at 1st April 2019 with this forecast to increase to £55.9m by 31st March 2020 as a result of the refinancing of Dexia and additional funding put in place. This is projected to reduce as funds are required to deliver the investment and development programme.

Movements in current liabilities relate predominantly to grant received in respect of housing under construction. This is recognised as deferred income until the units are completed at which point it is transferred to the Statement of Comprehensive Income as part of Turnover.

Long Term Liabilities

Long term liabilities relate to outstanding loan amounts net of fees. This is forecast to increase over the period to fund investment in existing properties and the development programme.

Reserves

Over the projected period shown above, reserves are expected to decrease. This is driven mostly by valuation movements resulting from the difference in EUV-SH valuation of new build properties and the cost of development.

Cash Flow Strength

Cash flows need to be able to demonstrate that there is sufficient cash available to service debt each year and to repay funding within 30 years. A measure often used in the housing sector is "Earnings Before Interest, Tax, Depreciation and Amortisation, Major Repairs Included" ("EBITDA MRI"), which removes items that are non-cash and/or unrelated to operations, such as grant income and property valuation movements, to assess the funds available to meet interest payments and pay for all costs related to current stock.

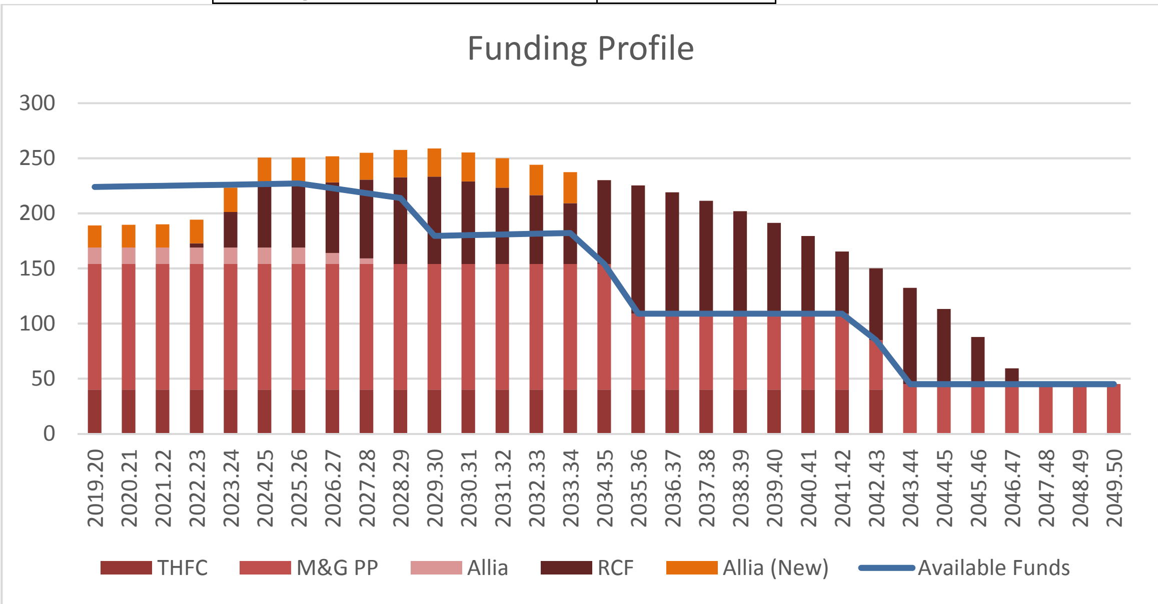
Cash Flow Strength	Forecast				
	Year 1 2020-21 £'000	Year 2 2021-22 £'000	Year 3 2022-23 £'000	Year 4 2023-24 £'000	Year 5 2024-25 £'000
EBITDA	17,289	20,209	19,042	20,685	22,547
Less Capital Investment (Existing Properties)	(22,014)	(15,709)	(15,771)	(14,556)	(13,869)
EBITDA MRI	**(4,726)**	**4,499**	**3,271**	**6,129**	**8,678**
Net Finance Costs	(6,192)	(6,240)	(6,241)	(7,371)	(9,128)
Cover	**(10,917)**	**(1,740)**	**(2,970)**	**(1,242)**	**(450)**

Due to the high level of investment, combined with increased borrowing to fund the development programme, EBITDA MRI is negative in the first year. As income increases and investment required reduces EBITDA MRI becomes positive and by 2026/27 there is sufficient cash generated to cover both investment in existing stock and funding costs. Over the longer term it is projected that debt can be repaid in 2048/49 of the plan with £46.9m of cash generated by year 30.

Funding and debt profile

The financial projections for DGHP reflect the refinancing of the current £130m Dexia loan with a £114m private placement, £35m revolving capital facility and an additional £20m facility from Allia. The existing Allia and THFC facilities are assumed to be unchanged. The table and graph below show the key funding indicators and funding profile by facility for DGHP

Debt indicator	Value
Peak debt (net)	£253.8m
Peak debt year	2029/30
Debt repayment year	2048/49
Closing cash	£46.9m



This graph shows DGHP will have sufficient facilities available as a result of the refinancing to fund the development programme over the short to medium term. DGHP's debt level will increase in the short term as investment continues in both existing and new build homes. The debt starts to get repaid in 2030/31 of the plan and thereafter the debt levels reduce. By 2048/49, there will be sufficient cash to repay debt with an estimated closing cash balance of £46.9m.

Key Financial Ratios / Covenants

As part of the new and existing funding arrangements there are a number of financial covenants which DGHP need to meet. The key covenants are set out below:-

[redacted]

The table shows that based on DGHP's financial projections the funding covenants on the new facilities will be met.

[redacted]

4.2 RSL Borrower Group (Including DGHP)

To assess the potential impact of the inclusion of DGHP in the RSL borrower group, the financial projections for both have been consolidated. These projections assume that DGHP join the borrower group from 1st April 2021 and that there will be no impact on the group from the addition of DGHP i.e. the combined plan does not assume any additional savings or costs other than those currently assumed within the individual subsidiaries.

RSL Borrowing Group Financial Projections

The projected Statement of Comprehensive Income and Statement of Financial Position for the RSL borrowing group including DGHP is shown below.

Statement of Comprehensive Income

	2020-21	2021-22	2022-23	2023-24	2024-25
Turnover	**303,985**	**364,014**	**391,289**	**427,387**	**428,850**
Operating Expenditure	(222,286)	(265,462)	(269,682)	(280,373)	(291,667)
Other Income & Gains	(14,233)	232,175	(4,636)	(9,836)	(6,665)
Operating Surplus	**67,466**	**330,727**	**116,971**	**137,178**	**130,519**
Operating Margin	*22%*	91%	30%	32%	30%
Gain on Disposal of Fixed Assets	1,060	8	0	0	0
Net Finance Cost	(64,073)	(72,485)	(75,583)	(79,027)	(83,288)
Movement in valuation of social housing properties	7,909	(13,362)	(25,973)	(19,780)	7,879
Total Comprehensive Income	**12,363**	**244,888**	**15,414**	**38,371**	**55,110**

The inclusion of DGHP in the RSL Borrower Group from the 1st April 2021 results in a significant increase in both income and costs from 2021/22 onwards. An estimated gain on business combination of £238m, representing the expected net assets of DGHP, has been reflected in other income and gains in 2021/22 contributing to an increase in total comprehensive income to £244.9m in that year. As the above shows it is anticipated that an overall surplus will be realised in all years with this increasing over the period as a result of efficiencies and additional rental income generated from new build and increases. While we anticipate further efficiencies may be realised from DGHP joining the borrower group these have not been assumed.

Statement of Financial Position

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Housing Properties	1,978,974	2,465,533	2,551,424	2,616,638	2,695,065
Investment Properties	106,044	131,352	147,567	175,063	196,010
Other Fixed Assets & Investments	81,034	82,173	80,825	79,992	79,771
Total Fixed Assets	**2,166,052**	**2,679,058**	**2,779,817**	**2,871,693**	**2,970,846**
Debtors Due < 1 year	44,639	47,346	46,304	45,927	45,901
Cash	15,000	36,241	20,000	20,000	20,000
Creditors Due < 1 year	(114,201)	(148,898)	(152,413)	(146,887)	(132,867)
Net current assets/(liabilities)	**(54,562)**	**(65,312)**	**(86,109)**	**(80,960)**	**(66,967)**
Loans	(1,287,680)	(1,541,305)	(1,605,853)	(1,664,508)	(1,722,544)
Pension Liability	8,483	4,740	4,740	4,740	4,740
Other Creditors & Provisions	(1,245)	(1,245)	(1,245)	(1,245)	(1,245)
Long Term Liabilities	**(1,280,442)**	**(1,537,810)**	**(1,602,357)**	**(1,661,012)**	**(1,719,048)**
Net Assets	**831,048**	**1,075,936**	**1,091,350**	**1,129,721**	**1,184,831**
Capital & Reserves	**831,048**	**1,075,936**	**1,091,350**	**1,129,721**	**1,184,831**

It is assumed that at the point DGHP joins the borrower group in April 2021 they will have housing assets worth £412m and debt of £191m, increasing the net assets of the group by £238m. Over the following four years net assets are projected to increase from £1,069m to £1,184m due to increasing asset values as a result of investment and growth, and forecast surpluses.

Cashflow strength

In addition to considering the impact on the financial statement of the addition of DGHP to the borrower group, the capacity to generate sufficient cash from operations to support the capital maintenance programme and service debt has also been assessed using the EBITDA MRI measure.

The table below shows the projected EBITDA MRI relative to interest for the first five years, with DGHP included from 2021/22.

	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
EBITDA	118,362	147,678	162,184	173,386	184,197
Capital Stock Improvements	(58,357)	(72,136)	(71,684)	(71,389)	(73,137)
EBITDA MRI	**60,005**	**75,542**	**90,499**	**101,997**	**111,060**
Interest (net)	62,614	71,219	74,622	78,199	81,913
Cover	**(2,609)**	**4,323**	**15,877**	**23,798**	**29,147**
%age	96%	106%	121%	130%	136%

In line with the RSL borrower group prior to the addition of DGHP this demonstrates a steady improvement over the period as efficiency savings in operating costs are achieved and additional income is generated from new units and rent increases. Our combined projections also show that there will still be sufficient income to cover interest costs by 2021/22.

The illustrative figures above show interest cover being around 5% lower than the current RSL borrowing group without DGHP from 2021/22 onwards. However, this is based on extremely prudent assumptions in the DGHP business plan, including:

- Provision made for capital investment in existing properties is in line with the need identified in the stock condition survey and includes additional amounts in respect of customer priorities which could be reduced if required.
- VAT savings of only £0.5m are assumed on repairs and investment in existing properties. However, this function is being brought in-house from 2020/21, with the total saving expected to be between £1m-£2m a year in VAT.
- No efficiency savings are assumed from the partnership with Wheatley; whereas savings in a number of areas are likely to be delivered.

It is our strong expectation that, taking these factors into account, DGHP will have a limited effect on the borrower group interest cover position.

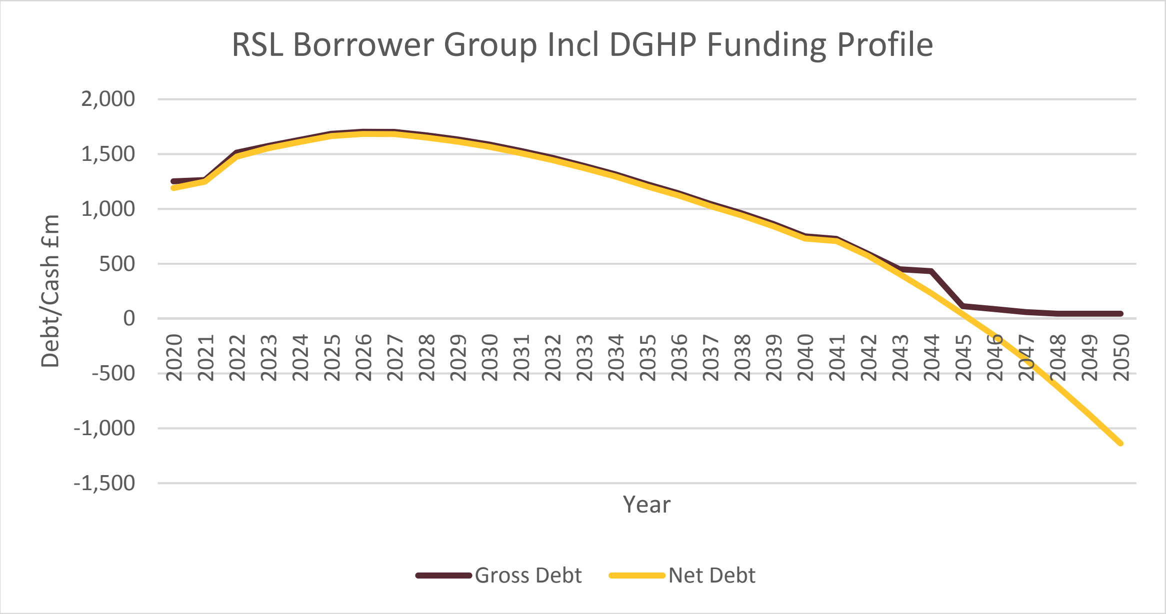
Funding and debt profile

The financial projections for the RSL borrowing group including DGHP reflect the current group funding arrangements through Wheatley Funding Limited 1 (“WFL1”). It has been assumed that the new funding put in place by DGHP in December 2019, including a £114m private placement with M&G and a £35m revolving credit facility with Royal Bank of Scotland, to refinance their existing loan from Dexia will be novated into the RSL borrower group.

DGHP’s facilities with THFC and Allia will remain in place within DGHP. All RSLs will continue to borrow from WFL1 under intra-group loan agreements at an all in funding rate representing total external funding costs incurred by WFL1. Pooled assets of all the RSLs including DGHP will be charged in security to support WFL1’s borrowings and there are cross guarantees between the RSLs on the borrowing group. Each RSL needs to maintain financial viability in its own right and this is achieved by ensuring that their individual cash flows and assets are sufficient to support their own debt. DGHP’s accession to the RSL borrower group is subject to WFL1 lenders’ consent.

The table and graph below show the key funding indicators and profile for the RSL Borrowing Group.

Key Funding Indicators	
Peak Debt (Gross)	£1,703.9m
Peak Debt (Net)	£1,683.9m
Peak Debt Year	2025/26



Key financial parameters / covenants

As part of the RSL borrowing group funding arrangements, financial covenants that need to be met are set out below:

		2020-21	2021-22	2022-23	2023-24	2024-25
DSCR	RSL GROUP	5.7x	5.3x	3.2x	2.6x	2.1x
	Target (> than)	**1.4x**	**1.4x**	**1.4x**	**1.4x**	**1.4x**
Interest Cover (Banks)	RSL GROUP	144.1%	131.4%	121.3%	130.4%	135.6%
	Target(> than)	**110%**	**100%**	**100%**	**110%**	**110%**
Debt per Unit	RSL GROUP	£23,963	£23,756	£24,443	£24,926	£25,456
	Target(< than)	**£26,500**	**£27,000**	**£27,000**	**£27,000**	**£27,000**
Debt Service	RSL GROUP	13.5	13.2	14.7	13.2	11.1
	Target (< than)	**19**	**18**	**17**	**16**	**15**

The table above shows that based on the RSL Borrowing Group projections all funding covenants will be met.

5 Commercial Subsidiaries

5.1 Lowther Homes & YourPlace

[redacted]

5.2 Loretto Care

Loretto Care is currently a subsidiary of Loretto Housing which provides care services predominantly across the west of Scotland. Services in the East are currently provided by RSL subsidiary Barony Housing however, as part of the 2020-25 strategy, *Inspiring Ambition, Unleashing Potential*, work was undertaken during 2019/20 to assess the options for bringing Care services in Wheatley together under one company in order to deliver on one of the key themes of creating customer value and shaping care services for the future. As a results of this work it is anticipated that in early 2020 Barony's Care operations will be formally combined with Loretto Care's and that Loretto Care will move from being subsidiary of Loretto Housing to become a direct subsidiary of Wheatley Housing Group.

Delivery of all of the Group's care services by a single entity is a major step towards realising our ambition of being Scotland's leading care organisation by 2025 and further protects the viability of Care activities in an entity with a strong level of reserves, supported by a new structure to enhance the frontline delivery of Care.

Income in respect of Care Services is the main source of income for Loretto Care with the majority of this received in the form of grant from local authorities. Pressure on purchasers to deliver budget cuts has resulted in reductions in this income as well as reductions in Sheltered Service funding. Combined with additional staffing costs to meet the National Living Wage, these funding cuts have resulted in a challenging operating environment for Loretto Care. Reconfiguration of services by altering staff structures and working patterns, along with efficiencies in overhead costs, have allowed Loretto Care to deliver surpluses each year while absorbing the impact of these financial pressures. This work will however need to continue in future years if surpluses are to be maintained within the current environment.

In preparing the financial projections a prudent approach has been taken to income and costs. Revised staffing models have been implemented in the majority of Care projects and these have been reflected in our forecasts together with pay increases which ensure all staff will receive the Real Living Wage. Health and Social Care Partnership budgetary pressures continue to impact care funding however as the Scottish Government are encouraging contracts to be awarded to Real Living Wage employers we have assumed income will increase to cover the costs of the services. These general assumptions result in the overall surplus remaining relatively stable over the five year period as shown in the table below.

	2020-21 £000s	2021-22 £000s	2022-23 £000s	2023-24 £000s	2024-25 £000s
Income	**21,555**	**21,978**	**22,392**	**22,815**	**23,221**
Expenditure					
Staff	(16,758)	(17,105)	(17,454)	(17,809)	(18,099)
Overheads	(3,252)	(3,305)	(3,360)	(3,415)	(3,471)
Group recharge	(1,330)	(1,356)	(1,383)	(1,410)	(1,436)
Total Expenditure	**(21,340)**	**(21,766)**	**(22,197)**	**(22,634)**	**(23,006)**
Surplus/(Deficit) before Interest	**215**	**212**	**195**	**181**	**215**

Within the context of strong financial performance since joining Wheatley, and future forecast surplus generation, the projections assume a modest accumulation of reserves. This helps maintain a provision to help mitigate the impact which may result from loss of key services. This is in line with the current reserves policy of holding a minimum of one month of expenditure in reserves. The table below shows the projected reserves relative to spend over the next five years.

Projected Reserves	2020-21	2021-22	2022-23	2023-24	2024-25
Total charity funds £000s	2,208	2,440	2,666	2,886	3,153
Reserves held (months)	1.32	1.43	1.54	1.63	1.75

6. Other Group Companies

6.1 Wheatley (WHG)

Wheatley is the parent company of the Group and an RSL. As it does not own any housing assets it is not included in the RSL Group Business Plan for the purposes of our funding arrangements. Previously, its main function was to provide group services to the other subsidiaries within the Group including transactional and strategic services; however this role has been transferred to Wheatley Solutions.

6.2 Wheatley Solutions

The Wheatley Housing Group Board agreed to create Wheatley Solutions at its December 2015 meeting with the intention to create a distinct entity in its own right, delivering excellence in shared service provision to subsidiaries across the Group.

Staff are seconded to Wheatley Solutions from what used to be the corporate functions in various group partners, most notably GHA, and to a lesser extent Dunedin Canmore, Barony, Cube and Loretto Housing. In developing Wheatley Solutions the intention is to ensure continuity of service whilst developing new services and ways of working to ensure Wheatley Solutions, like all other parts of the Group, is recognised for providing excellent services to customers.

Costs incurred by Wheatley Solutions are predominantly staff and running costs. These have been estimated based on the current year's forecast adjusted for identified savings and it is assumed that over the next five years further real terms efficiency savings of £0.8m will be delivered. These will be achieved through restructuring and economies of scale e.g. through group wide procurement of contracts to ensure value for money on services provided to other group members. All costs relating to staff and running costs are fully recharged to subsidiaries.

Income received from subsidiaries are based on costs plus a mark-up of 5% however this profit is offset by an annual rental charge payable to GHA in respect of Wheatley House. If costs were to vary from those projected the recharge would be adjusted to ensure that overall Wheatley Solutions remains financially neutral.

An application has been submitted to the FCA seeking approval for Wheatley Solutions to be the agent for the Wheatley home contents insurance scheme offered to tenants and factored homeowners as well as the building insurance offered to factored homeowners.

Both schemes are currently offered by YourPlace and administered by Aviva with YourPlace acting as agent but will be transferred to Solutions on approval by the FCA. We expect approval in early 2020/21 so have reflected the cost and income including commission from 2020/21 on. A corresponding reduction in the recharge to Lowther has been made for their share of Wheatley Solutions services.

Wheatley Solutions	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000
Income					
Group recharges	25,609	25,571	26,031	26,685	27,357
Regulated insurance activities	3,679	3,771	3,865	3,962	4,061
Total	**29,288**	**29,342**	**29,896**	**30,647**	**31,417**
Costs					
Staff	16,111	15,943	16,134	16,489	16,852
Running Costs	9,986	10,128	10,409	10,721	11,043
Regulated insurance activities	3,189	3,268	3,350	3,434	3,520
Total	**29,285**	**29,339**	**29,893**	**30,644**	**31,414**
Profit before tax	**3**	**3**	**3**	**3**	**3**
Tax	(1)	(1)	(1)	(1)	(1)
Profit after tax	**2**	**2**	**2**	**2**	**2**

Wheatley Solutions also manages the IT investment on behalf of the Group with the assets being held by our RSLs. Each subsidiary makes a capital contribution and in return receives access to group IT systems and networks. Wheatley Solutions works with Group subsidiaries to agree capital investment for particular projects and initiatives through a formal project approval framework.

The table below outlines the forecast IT capital investment of £14.1m over the next five years.

Wheatley Solutions	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	Total £000
Investment						
IT Capital Spend	2,652	2,732	2,814	2,898	2,985	**14,081**
Capital contribution						
GHA	1,990	2,006	2,066	2,128	2,192	10,382
Cube	187	188	194	200	206	974
WLHP	19	19	19	20	21	98
Loretto Housing	71	72	74	76	78	370
Dunedin Canmore	280	340	351	361	372	1,704
Lowther Homes	106	107	110	113	117	553
Total	**2,652**	**2,732**	**2,814**	**2,898**	**2,985**	**14,081**

6.3 Wheatley Foundation

[redacted]

7. City Building Glasgow (Joint Venture)

[redacted]

8 Risk Analysis

The key challenges for WHG include:

- How we best mitigate the risk of the current economic climate, including the potential impact of Brexit on inflation, and welfare benefit changes on our business with their wider impact on affordability for all our customers and communities.
- Achievability of assumed rent increases, particularly in the context of potential policy changes following previous rent cuts in England and rent cap in Wales
- Our need to reduce our management costs to ensure sustainable services, achieve our financial projections and provide demonstrable value.
- The changing housing market in Scotland, with affordability an increasing national priority across a wider range of residents and potential demand implications for social and mid-market rented housing.
- Limitations on public resources creating need for innovative solution to deliver national priorities and leading to increased demand for our services
- Adapting care services to the new delivery model and funding environment
- Delivery of the development programme within resources available particularly given the lack of assurance on grant availability post 2021

As risks affect different parts of the Group in different ways, especially in terms of specific funding covenants in place, we have assessed the impact of the key risks on the RSL Borrowing Group, DGHP and Lowther Homes (as they are funded separately) as well as wider risks affecting the Group.

<u>RSL Borrowing Group</u>

In addition to considering the impact of potential risks on the RSL Borrowing Group, a number of mitigating actions have also been identified which could be used to offset any negative impact on funding requirement or headroom. These mitigating actions have been noted below:

Mitigant	Rationale	Impact	Impact timing
Tier 1			
Reduce Better Lives costs	Spend on Better Lives could be reduced or stopped (subject to commitments)	£0.3m	Immediate, short term
Reduce non-essential running costs	Spend on non-essential running costs such as consultancy could be reduced/stopped	£0.3m	Immediate, ongoing
Reduce Foundation funding	Option to reduce scale of Foundation activities resulting in a reduction in funding required from RSLs	£0.9m	Immediate subject to match funding commitments
Suspend cyclic maintenance	Non-essential cyclic maintenance could be suspended for up to two years	£3.5m pa	Immediate, short term impact only
Defer/delay investment programme	Short term saving could be realised by limiting investment on lifecycle replacements and non essential customer priorities.	£2.0m pa	Immediate, short term
Reduce ICT capital expenditure	Spend on maintenance of existing systems only with limited investment in new technology would reduce debt requirement	£0.75m pa	Immediate
Development Fund	Acquisition of potential sites for development could be stopped and financial support for new schemes reduced	£0.6-0.9m	Immediate, short term
Tier 2			
Restructure and reduce Tenancy Support Service (£1.4m)	Ancillary to core housing management service, reduction in TSS would require provision for ER/VR	£0.8m	Within 1 year
Cease all Foundation funding	Cease all Foundation funding with exception of core activities such as welfare benefit advice	£0.9m	Immediate subject to match funding commitments
Reduce annual pay increases	Reducing staff pay increases from assumed 2.2% to 1% or applying a pay freeze would allow immediate cost savings without reducing posts or service	£0.8m	Immediate, potentially ongoing

Staff cost reductions	Environmental service could be reduced in scope, patch sizes increased and some back office elements could be removed.	£2m	Lead time to restructure services & negotiate redundancies. ER/VR impact
Rent increase	Higher rent increase (+0.5%) could be applied for 1 year to offset increasing cost base.	£1.1m	Immediate, short term
Defer/delay investment programme	Further short term saving could be realised by limiting investment to compliance & essential works only for up to five years. Provision for compensation to City Building may be required	£3.0m pa	Immediate, short term
Reduce/cease non social new build programme	Reduction or cessation of non committed/contracted mid market rent developments would reduce debt requirement	Reduction in debt only	Non contracted developments only.
Tier 3			
Reduce/restructure Community Improvement Partnership with Police/Fire	Reduction in CIP could be done with minimal ER/VR. Possible implications for tenant security	£0.8m	Within 1 year
Reduce void repair standard	Void standard could be reduced resulting in a saving in repairs and investment costs. May impact on asset values and tenant satisfaction	£1.5m	Immediate
Reduce medical adaptations	Funding available for medical adaptations could be reduced from current £1.5m	£0.5m	Immediate
Further staff cost reductions	Patch sizes could be increased further (600 units), and delivery of other customer services such as environmental, CSC reduced in scope. Consideration may be required of compulsory redundancy	£2m	Lead time to restructure services & negotiate redundancies. ER/VR impact
Rent increase	Higher rent increase could be applied to maintain differential to cost increases e.g. cost inflation +0.5%. Subject to tenant consultation and demonstration of value for money	£1.1m	Tenant consultation required, ongoing cumulative benefit

Sale of Wheatley House	Sale of Wheatley House could generate a substantial cash inflow in the short term. Additional ongoing cost however of either leaseback or relocation of staff	£10-14m	Time required to find buyer and relocate staff
Negotiate restructure of JV	Savings/additional efficiencies could be realised through restructure of the JV. This would be subject to negotiation with GCC and may require additional costs in the short term to realise any benefits	TBD	Likely to require at least 1 year to negotiate with GCC & implement

The table below sets out key financial sensitivities on the RSL Borrower Group funding covenants.

Nr	Risk Description	Golden Rules Met Y/N	Covenants Met Y/N	Debt per Unit (Max)	Interest Cover Headroom (Min)	DSCR Headroom (Min)	Impact & Mitigations
Base Case		**Y**	**Y**	**£26,070**	**£18.0m (2023/24)**	**£34.5m (2027/28)**	
Economic risks							
1	Inflation increase to 3.5% in all years	Y	Y	£25,918	£20.2m (2023/24)	£43.9m (2027/28)	Income exceeds costs over the medium to long term therefore providing rent increases of cost inflation + can be applied headroom all covenants can be met and headroom improves
2	Inflation increases to 4% in years 2-4 but rent increase limited to 3.4%/3.5%	N	Y	£26,450	£14.1m (2023/24)	£30.1m (2027/28)	As increase in costs exceeds increase in income operating surplus will be reduced. All covenants will continue to be met however headroom will be reduced and breach of golden rules will signal need to undertake mitigating actions.
3	Inflation reduces to 2% from year 3 on	N	Y	£26,273	£15.1m (2023/24)	£19.2m (2027/28)	All covenants will continue to be met but headroom on debt to adjusted operating surplus will reduce significantly due to fall in income.

Nr	Risk Description	Golden Rules Met Y/N	Covenants Met Y/N	Debt per Unit (Max)	Interest Cover Headroom (Min)	DSCR Headroom (Min)	Impact & Mitigations
4	Interest rates are 1% higher from year 2	N	Y	£26,269	£15.2m (2023/24)	£28.6m (2027/28)	Significant proportion of funding is fixed therefore limited impact on covenants. Additional fixed rate funding could be put in place should rates increase further.
5	Rent increases limited to cost inflation in all years	N	Y	£26,444	£14.0m (2023/24)	£21.8m (2027/28)	Reduction in income results in increased borrowing requirement and reduced operating surplus. Covenants can be met in all years however headroom reduced.
Operational risks							
6	Performance – bad debts increase by 1%	N	Y	£26,421	£14.5m (2023/24)	£29.0m (2027/28)	Reduction in net income received increases debt requirement and reduces headroom on covenants however covenants can still be met
7	Staffing and running costs are £2m higher from year 2 on	N	Y	£26,297	£15.4m (2023/24)	£30.7m (2027/28)	Increased cost reduces operating surplus and increases funding. Covenant headroom is reduced but can still be met
8	Revenue repair costs are 10% higher from year 1 on	N	Y	£26,466	£13.4m (2023/24)	£27.5m (2027/28)	Significant increase in costs increases debt and reduces operating surplus. Covenants can be met but with lower headroom.
Growth							

Nr	Risk Description	Golden Rules Met Y/N	Covenants Met Y/N	Debt per Unit (Max)	Interest Cover Headroom (Min)	DSCR Headroom (Min)	Impact & Mitigations
11	No grant available for MMR from 2021	N	Y	£26,644	£17.0m (2023/24)	£31.3m (2027/28)	Significant reduction in grant income with no change in programme results in increased debt requirement. All covenants can still be met but headroom will be reduced. Reappraisal of schemes required to determine whether to proceed without grant income or look at alternative tenure options.
12	New build programme delayed	Y	Y	£25,992	£18.4m (2023/24)	£34.2m (2027/28)	Delay in development results in a reduction in debt requirement in the short term and increases headroom in both interest cover and debt per unit. Over the longer term there is an adverse impact from the delay in receiving rents.
13	New build programme accelerates	N	Y	£26,184	£17.3m (2023/24)	£34.6m (2027/28)	Accelerating the new build programme results in additional debt and a breach in both our debt per unit and interest cover golden rules. This could be mitigated by reducing other capital spend
14	Major contractor fails resulting in delay and additional costs	N	Y	£26,313	£17.2m (2023/24)	£33.3m (2027/28)	Delay in delivery of the units combined with an assumed 20% increase in costs increases debt and funding costs and reduces surplus. While we would breach our debt per unit and interest cover golden rules, covenants could still be met

Nr	Risk Description	Golden Rules Met Y/N	Covenants Met Y/N	Debt per Unit (Max)	Interest Cover Headroom (Min)	DSCR Headroom (Min)	Impact & Mitigations
Combined							
15	Inflation increases by 1% in years 2-4 with no change to rent increases, interest rates also increase by 1% over the same period and bad debts are 0.5% higher	N	Y	£26,717 (2025/26)	£9.6m (2023/24)	£26.8m (2027/28)	The combination of higher cost inflation and limited rent increases plus additional interest costs reduces surplus and increases debt. While interest cover, DSCR, debt service and debt per unit covenants can still be met headroom is substantially reduced and breach of golden rules will signal need to undertake mitigating actions.
16	Major contractor fails and grant availability for mid market rent ceases from 2021	N	Y	£26,880 (2025/26)	£16.3m (2023/24)	£29.9m (2027/28)	The combination of delayed completions, increased cost and reduced grant results in a substantial increase in debt requirement, funding costs and a reduction in surplus. Covenants can still be met but headroom is significantly reduced in debt per unit and golden rules would be breached signalling the need for mitigating actions.

The table shows that while in the majority of cases golden rules would not be met there is sufficient headroom within our covenants to avoid a breach. Where our golden rules are not met, the necessary mitigating actions identified will be undertaken to prevent any breach of covenants and restore headroom to previous levels. Close monitoring of operational performance and management of overall costs within the financial envelope assumed in the plan will however remain key to achieving the projected financial results unless additional income can be generated to offset any additional costs.

The other potential impact is on our security value and asset cover as significant market downturns or changes in the valuation could negatively impact on our security position. The majority of our £1,883m of secured stock is valued on a EUV-SH basis (63% of value is on an EUV-SH basis), which is based on discounted cashflows and therefore not impacted by movements in general property values. This is not the case with assets valued on the MV-ST basis and these are more sensitive to general property market fluctuations. It is not easy to quantify how scenarios may impact on property value, however there remains sufficient asset cover headroom across the majority of our facilities which, combined with the £99m of unsecured assets at the start of 2020/21, could be used to fill any asset valuation shortfall. In addition, there is also the option to move secured assets between facilities to address asset cover shortfalls in one facility from a surplus in another.

DGHP

The key risks for DGHP are largely the same as those for the RSL borrower group however they will face additional risks relating to implementation of the in house repairs service and transformation to a new operating and service model. The DGHP 2020/21 Financial Projections include detailed sensitivity analysis showing the impact of these risks on the key financial parameters, including funding covenants.

Lowther Homes

[redacted]

Loretto Care

Care services
While Loretto Care has reconfigured staffing and operating structures during the past two years the operating environment is becoming increasingly challenging with further reductions in income anticipated and pressure to increase costs as a result of the introduction of the National Living Wage. The impact of these risks on Loretto Care's surplus and reserves is included within the detailed sensitivity analysis within the Loretto Care 2020/21 Financial Projections.

GHA

Better homes, better lives
www.gha.org.uk

GHA Financial Projections
2020/21

Wheatley Group

Classified as Internal

1 Headlines

GHA is on track to complete 320 social rent units and 119 MMR units in 2019/20. Further investment of £47.8m in our existing homes is also expected to be achieved.

The updated financial projections for 2020/21 and beyond include:

- Provision to build 1,304 new properties in the first 5 years of the plan; 608 social rent units and 696 mid-market rent properties.
- A further 20 property acquisitions (e.g. buy-backs from owners who bought under the Right to Buy scheme and wish to sell their home back to us).
- £231m of investment in our existing housing stock in the first 5 years of the projections, including £10.7m set aside for customer priorities.
- Continued operating cost efficiencies, in line with previous plans and performance to date.
- £10.0m of donations to the Wheatley Foundation as well as £2.1m Better Lives and Area Committee funding across the first 5 years of the plan.
- An improving operating surplus in the first 5 years of the projections.
- By year 3 of the financial projections, GHA is expected to generate sufficient cash from its underlying business operations to meet the borrowing costs of the business and the cost of its investment works.

GHA's peak net debt of £989.9m is forecast to be reached in 2024/25 (year 5) with repayment following thereafter. Debt is projected to be paid in full in 2047/48 (year 28) with an anticipated closing cash balance of £271.4m in year 30.

2 Key assumptions

The key assumptions in the GHA 2020/21 Business Plan are highlighted below. All figures include VAT and inflation, unless stated otherwise.

2.1 Stock numbers

Social housing

Opening stock numbers for the 2020/21 financial projections have been derived using the audited stock numbers at 31 March 2019 as per the statutory accounts, adjusted for forecast additions and disposals in 2019/20. Additions relate to new build properties completed in the year and other one off, strategic acquisitions. Disposals refer to any demolitions in the year. The 2020/21 projections assume an opening balance of 39,790 properties at 1 April 2020:

- Of the opening stock numbers, 117 are marked for demolition. These relate to the units at Gallowgate which are expected to be handed over to the contractor in 2020/21, following completion of the adjacent new build development in Q4 of 2019/20.
- In 2019/20 320 properties are expected to complete at our developments at Hinshelwood, Gallowgate, Auchinlea, Linkwood, Glenacre and Bellrock with a further 608 units completing between 2020/21 and 2045/25.
- Funding for 20 individual asset purchases is included in 2020/21. These primarily relate to former Right to Buy properties bought back and facilitate majority ownership of a block.

As a result of the changes noted above, social rent units are forecast to increase to 40,301 units over the first 5 years of the projections.

Other Affordable Housing

Our mid-market rent properties offer a low cost alternative to people in employment who receive a low to moderate salary. These units are built and owned by GHA but are leased to and managed through the Wheatley Housing Group's commercial subsidiary, Lowther Homes Limited.

At 1 April 2020 GHA are expected to own 503 mid–market rent ("MMR") properties following completions in the current year at Bellwatson, Ibroxholm Ph2 and Gallowgate. Over the first 5 years of the projections a further 696 units are expected to be completed, taking our MMR portfolio to 1,199 properties by 31 March 2025.

A summary of the change in stock numbers for both social rent property and mid-market rent properties is shown below:

Stock Numbers	Forecast				
	2020/21	2021/22	2022/23	2023/24	2024/25
	Year 1	Year 2	Year 3	Year 4	Year 5
Opening Units	40,293	40,674	40,872	41,033	41,263
Additions - Acquisitions	20	-	-	-	-
Additions - Social Rent	260	48	95	75	130
Additions - MMR	218	150	66	155	107
Demolition	(117)	-	-	-	-
Closing Units	**40,674**	**40,872**	**41,033**	**41,263**	**41,500**

Anticipated handover of units at the Kennishead new build development in 2020/21 marks the final completions with respect to our commitment as part of the re-provisioning programme.

2.2 Rents and Service Charge Income

Opening rents are based on our average weekly rent for our current rent roll of £84.84, adjusted for a proposed 3.4% rent increase in April 2020, subject to board approval. The rent growth assumption in subsequent years is 3.5% as noted below:

Rent increases	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
Percentage rent increase assumed	3.40%	3.50%	3.50%	3.50%	3.50%

Per previous commitments, rents relating to demolition stock are assumed to be frozen for their remaining life.

2.3 Other Income

A further £7.8m is expected to be generated by GHA in 2020/21 from other income streams, rising to £11.3m by year 5 of the projections (2024/25). Other income encompasses service charges for heat with rent, district heating and garage lock ups as well as commercial income from radio masts, the rental of offices and shops underneath our housing properties, as well as lease income from Lowther Homes for our MMR properties. The £3.5m increase in other income over the first 5 years of the plan is driven, in the main, by the completion of additional MMR units which are in turn let to Lowther Homes and are expected to contribute £5.9m by 2024/25, an increase of £3.1m over the 5 year period.

Other Income	Forecast				
	2020/21	2021/22	2022/23	2023/24	2024/25
	Year 1	Year 2	Year 3	Year 4	Year 5
External					
Heat with rent	382	502	630	801	895
Furnished Lets	157	16	0	0	0
Hillpark District heating	220	227	233	240	248
Garage income (net of voids)	383	397	411	425	440
Owners Capital Works	275	283	292	301	310
Wayleave Income (Virgin)	150	150	150	0	0
Commercial - Radio Masts	300	300	150	150	75
Commercial - Properties	1,648	1,698	1,748	1,801	1,855
Initiatives - Solar PVs	394	401	409	416	424
Internal					
MMR lease income	2,782	3,832	4,643	5,141	5,896
Commercial - Wheatley House & Lipton	1,419	1,416	1,438	1,470	1,502
TOTAL	**8,109**	**9,221**	**10,104**	**10,743**	**11,643**
Owners Capital Costs offset against income	(275)	(283)	(292)	(301)	(310)
NET INCOME	**7,834**	**8,938**	**9,812**	**10,443**	**11,334**

2.4 Cost inflation assumptions

The general cost inflation rates assumed within the financial projections are shown in the table below:

	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
Cost inflation assumption (excluding employee costs)	3.00%	3.00%	3.00%	3.00%

December 2019 RPI was reported at 2.2%, with CPI at 1.3%. The Bank of England target is 2.0% CPI so the financial projection assumption of 3.0% includes a level of prudence.

2.5 Operating performance

The current void loss performance for GHA is 0.65% of rental income. The financial projections have been prepared prudently with rent lost through voids assumed to be 1.0% throughout the plan.

Bad debts are assumed throughout the forecasts to be 2.0% of rental income. Again, this is higher than the current levels reported by GHA but has been set cautiously because of the increasing impact of welfare reform on our tenants. Our Business Plan assumptions on movements in arrears as a result of universal credit have been updated to reflect our experience and expectations going forward including:-

- Increase in number of tenants moving to universal credit (a total of 17,200 tenants which is all tenants of working age);
- 80% of tenants who move on to universal credit will have an increase in arrears, with this increase equivalent to 5 weeks rent (£425-£485); and
- Of this increased arrears balance it is assumed only 40% will be recovered with this recovery taking up to two years.

2.6 Management costs

The following management costs (including inflation) are funded within the plan:

Operating Costs (including inflation)	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Direct management costs – GHA staff and running costs	40,877	42,167	40,556	41,381	41,899
Recharges from Wheatley Solutions (including Transactional Hub)	19,733	19,646	19,985	20,488	21,005
Total management costs	**60,611**	**61,814**	**60,541**	**61,869**	**62,904**

The management costs above reflect direct employee and running costs in GHA as well as recharges from Wheatley Solutions for the shared services this entity provides the Group. The projections include efficiency savings expected to be achieved through increased online engagement, streamlining of the office estate and procurement savings for utilities, vehicles and insurance. In real terms, management costs are expected to fall by £3.4m between 2020/21 and 2024/25; a 5.6% reduction.

2.7 Repair Costs

Our customer satisfaction surveys consistently show a direct link between the repairs service tenants receive and their satisfaction levels. Funding for repairs was increased in last year's business plan to better reflect spend levels and the increasing legislative requirements that the business must comply with (e.g. emergency lighting, window safety catches, TMVs, HIU inspections). This increased funding level has been maintained in the 2020/21 business plan being presented. This equates to average funding of £835 per property in 2020/21 increasing by inflation to £939 per property in 2024/25.

Repair costs (including inflation)	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Total repair costs	**33,281**	**34,231**	**35,391**	**36,883**	**37,763**
Average no. of units	39,872	39,977	40,049	40,134	40,236
Average repair cost per unit £	**835**	**856**	**884**	**919**	**939**

2.8 Demolition costs

The financial projections include £1.1m of costs required for our demolition programme of works. This funding primarily covers the contract costs to demolish our properties at Gallowgate. These properties are expected to be cleared in full following the completion of new build properties at the adjacent site in Q4 of 2019/20. The costs of demolition are incurred in full by GHA and reduce the operating surplus in the year they were incurred.

2.9 Other provisions

The financial projections continue to include a commitment to improve the wider communities in which we operate. Over the first 5 years of the plan, the following funding has been included:

- Helping Hand Funding of £460k in year 1 of the plan. This funding helps those in financial difficulty, particularly those who are in and out of jobs or whose benefits may change as a result of universal credit.
- Better Lives Funding of £750k in 2020/21 and at £300k per annum thereafter. This fund is currently managed and distributed by our Better Lives officers, employed by the Wheatley Foundation, to local communities following local committee approval.
- Annual costs of £1.1m for the Tenancy Sustainment service that Loretto Care delivers on our behalf.
- Funding for the Area Committees of £150k in 2020/21.
- Donations to the Wheatley Foundation totalling £10.0m over the first 5 years of the plan. This is largely funded through the redirection of interest receivable on the convertible debt instrument owed by Lowther Homes to GHA. This equates to £1.75m per annum with an additional top up provision from GHA of approximately £250k per annum. This is used by the Wheatley Foundation to fund their projects which directly impact the lives of GHA tenants. These projects include their bursary programme, training for vulnerable tenants looking to get back into employment, fuel and welfare benefit advice as well as fitness classes and the Home Comforts and Eat Well services.

2.10 Operating Cost per Unit

Our operating costs per unit, excluding depreciation and finance costs, over the five year period and are set out below:

Operating Costs	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
Operating Costs exc depn (£'000)	103,594	105,380	103,081	106,117	108,231
Average no. of units in year	39,872	39,977	40,049	40,134	40,236
Operating Cost per unit (£)	**2,598**	**2,636**	**2,574**	**2,644**	**2,690**

The underlying operating cost per unit, in real terms, is assumed to decrease by 6.8% over the first five years, a saving of £178 per unit. This saving is driven by asset growth and operating cost efficiencies.

2.11 Capital Investment

Investment in current housing stock

Funding for our rolling programme of investment works in our existing housing stock across the first 5 years of the projections is shown below; £231m is assumed to be invested in this timeframe. This funding includes inflation, VAT, fees, and capitalised employee costs associated with the delivery of the investment programme.

Investment in existing properties	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Core Investment Programme (inc environmental)	23,334	22,974	19,924	23,446	23,423
Capitalised Compliance Costs	4,111	1,353	1,653	1,053	2,343
Capitalised Void Costs (inc new void team)	7,241	7,452	7,669	7,892	8,122
Capitalised Repairs	3,039	3,145	3,254	3,366	3,481
Disabled Adaptations	1,365	1,365	1,365	1,365	1,365
Capitalised Employee Costs	2,652	2,710	2,770	2,831	2,893
Capitalised Fixed Overhead	6,074	6,257	6,445	6,638	6,838
Total Capital Investment	**47,817**	**45,256**	**43,080**	**46,591**	**48,464**

Funding of over £113m is included in the business plan over the first 5 years for the core investment programme and the replacement of components. This includes £18.2m for heating, £11.9m for new kitchens, £11.4m for lift replacements and £10.7m of funding to be used for what customers deem to be their priorities with spending decisions to be devolved to local committee level.

Capitalised void costs include the costs of carrying out the programme of void works as well as the costs of clearing the properties. This clear out service has now been brought in-house and will be carried out by a newly created void team within the Wheatley 360 wrap-around service structure. This is expected to generate savings of c£0.5m per annum which has been reflected in the information above.

Investment in new housing

Funding in relation to our new build programme has been included in the financial projections. Over the first 5 years of the plan, £115.8m is expected to be invested in new properties; this is net of grant income of £76.3m.

Funding of £1.0m for approximately 20 other property acquisitions has also been reflected in the plan, as well as £1.7m of Development Fund; this is used for abnormal costs at sites which may otherwise result in development costs being too prohibitive to progress.

The costs and grant income associated with investment in new properties is shown below:

Investment in new properties	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Development Costs	40,998	31,044	29,490	41,806	32,329
Development Fund	450	450	450	350	0
Capitalised Employee Costs	2,624	2,682	2,741	2,801	2,863
Acquisitions	1,000	0	0	0	0
Grant Income	(17,668)	(12,142)	(12,118)	(24,016)	(10,360)
Total investment in new properties	**27,404**	**22,034**	**20,562**	**20,941**	**24,832**
*Acquisitions and completions in year***	*498*	*198*	*161*	*230*	*237*

**In year development costs will be for units that complete in later years and do not necessarily relate to the units completing in the same year.

2.12 Interest Rate assumptions

The new build programme assumed in the financial projections requires debt finance to be drawn down over time. In line with the wider Group funding strategy, borrowing is advanced from Wheatley Funding No 1 Limited (WFL1) at an assumed blended all in average funding rate of 5.25% for 2020/21 and 5.35% thereafter. The blended funding rate reflects a combination of bank and bond funding, any fixed rate arrangements in place and any monitoring or commitment fees payable by WFL1 to external funders and is consistent across all Group subsidiaries.

The interest rate receivable on cash balances has also been revised as shown to reflect current market expectations.

Interest rate assumptions	**Forecast**				
	Year 1 2020/21	**Year 2 2021/22**	**Year 3 2022/23**	**Year 4 2023/24**	**Year 5 2024/25**
Interest Payable (Group funding)	5.25%	5.35%	5.35%	5.35%	5.35%
Interest Receivable	0.50%	0.75%	1.00%	1.50%	1.50%

3. Financial projections – next 5 years

3.1 Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Net rental income	182,440	189,260	196,305	204,253	211,315
Other Income	7,834	8,938	9,812	10,443	11,334
Grant Income	34,259	12,189	11,316	15,084	17,577
Total Income	**224,533**	**210,387**	**217,433**	**229,780**	**240,225**
Management and service costs	(60,611)	(61,813)	(60,541)	(61,869)	(62,904)
Repairs and maintenance costs	(33,281)	(34,231)	(35,391)	(36,883)	(37,763)
Demolition and ER/VR costs	(1,888)	(2,387)	-	-	-
Wider Role and Strategic Initiatives	(4,207)	(3,213)	(3,281)	(3,347)	(3,415)
Bad Debts	(3,607)	(3,736)	(3,868)	(4,017)	(4,149)
Depreciation	(61,632)	(64,742)	(66,630)	(68,446)	(71,205)
Operating Expenditure	**(165,225)**	**(170,122)**	**(169,711)**	**(174,562)**	**(179,436)**
Revaluation of investment properties	(18,749)	(7,252)	4,453	(2,587)	6,298
Operating Surplus	**40,559**	**33,013**	**52,175**	**52,630**	**67,087**
Operating Margin	**18%**	**16%**	**24%**	**23%**	**28%**
Net Finance Costs	(49,553)	(52,453)	(53,798)	(54,469)	(55,196)
Surplus/(Deficit)	**(8,994)**	**(19,440)**	**(1,623)**	**(1,838)**	**11,891**
Revaluation of housing properties	48,968	43,641	44,418	42,093	40,761
Total comprehensive income	**39,973**	**24,201**	**42,796**	**40,255**	**52,652**

The information presented in the table above includes inflation.

Income
Net rental income reflects the rent increase net of any void losses. Growth in our asset base through new build completions has also impacted.

Other income relates to income from our service charge offerings to tenants (e.g. heat with rent, home contents insurance, and rental income for our garage lock ups), as well as commercial property income (i.e. our offices and shops, radio mast charges and lease income from Lowther Homes for our MMR properties). Other income is assumed to increase by £3.5m over the first 5 years of the projections.

Capital grant income is recognised in the income statement in line with the completion of the associated capital spend. Grant income in the table above reflects the recognition of grant income with respect to new build programme, recognised in the income statement at the handover date of properties. As a result, the level of grant income fluctuates significantly across the 5 year period, reflecting both the volume of new build completions in each year as well as the tenure mix (as social rent units attract a higher level of grant funding).

Operating Expenditure
Management costs across the 5 year period assume efficiency savings as detailed in section 2.5 of this paper. Efficiency savings are expected to be achieved in running and employee costs incurred by GHA directly and recharged from Wheatley Solutions.

Non recurring costs have been shown as a separate line (Demolition and Organisation Restructuring) as these are included in the projections for a finite length of time only. They primarily relate to demolition costs and ER/VR costs which are “non-recurring” business change expenditure.

As noted in section 2.8, wider role and strategic initiative spend refers to revenue funding for our wider role activities in the communities that we serve. Funding of £17.5m has been included in the first 5 years of the projections.

Operating Surplus
The revaluation of investment properties line relates to gains and losses forecast on the revaluation of our investment (mid-market rent) properties. Years 1, 2 and 4 are expected to generate revaluation losses on these properties, however despite this, the financial projections estimate that GHA will generate an operating surplus in all 5 years shown.

When new build grant income and the impact of property valuations are stripped out of the operating statement above, the underlying business performance can be seen to be following an improving trend with operating surplus rising from £25.0m (13%) in 2020/21 to £43.2m (19%) in 2024/25.

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Total Income	190,274	198,198	206,117	214,696	222,648
Operating Expenditure	(165,225)	(170,122)	(169,711)	(174,562)	(179,436)
Operating Surplus	**25,049**	**28,076**	**36,406**	**40,134**	**43,212**
Operating Margin	**13%**	**14%**	**18%**	**19%**	**19%**

Total comprehensive income

Any changes in the valuation of our housing stock are reflected in the Statement of Comprehensive Income. Reductions in the valuation coincide with the timing of handovers of new build properties as our gross cost to build exceeds the valuation of new build properties.

3.2 Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Housing assets	1,378,898	1,423,015	1,466,411	1,514,921	1,557,876
Other Fixed Assets	81,272	80,688	80,121	81,063	82,234
Investment Properties	27,938	39,272	58,114	75,194	94,785
Lowther Investment	8,387	8,387	8,387	8,387	8,387
Total Fixed Assets	**1,496,495**	**1,551,362**	**1,613,034**	**1,679,565**	**1,743,282**
Current Assets	87,099	86,626	85,504	85,258	86,074
Current Liabilities	(30,696)	(30,478)	(30,478)	(30,478)	(30,478)
Net Current (Liabilities)/Assets	**56,404**	**56,148**	**55,026**	**54,781**	**55,596**
Long term liabilities	(971,461)	(1,001,871)	(1,019,625)	(1,045,656)	(1,057,536)
Net Assets	**581,438**	**605,639**	**648,435**	**688,690**	**741,342**
Revaluation Reserve	332,957	376,598	421,016	463,110	503,871
Pension Asset	14,711	14,711	14,711	14,711	14,711
Retained Earnings	233,770	214,330	212,708	210,869	222,760
Total Reserves	**581,438**	**605,639**	**648,435**	**688,690**	**741,342**

The information presented in the table above includes inflation.

Housing Assets

The value of Housing assets reflects the expected value of our housing stock over the 5 year period. Our housing assets are held at valuation and are assumed to increase in value each year as a consequence of our investment in our existing stock and in new properties.

Other Fixed Assets
Other Fixed Assets include our fixtures and fittings and IT Equipment. Annual depreciation charges reduce the balance each year.

Investments
Investment properties include our commercial properties (i.e. shops and offices) and our mid-market rent properties. These are valued annually with any movement in valuation taken through operating profit.

GHA issued £30m of convertible debt to Lowther Homes Limited in 2014/15. The convertible element of this is recognised as an investment in GHA's accounts. The remaining balance is an intercompany balance included within current assets.

Net Current Assets
The value of current assets is broadly consistent over the 5 years of the projections. Arrears are expected to increase from current year levels in 2020/21 following the continued roll out of universal credit. This position is then expected to improve as these debts are recovered.

Long Term Liabilities
Long term liabilities relate to the loan due to Wheatley Funding Limited 1 (WFL1) and the contingent efficiencies grant. The long term liabilities balance increases over the period shown. This is because debt is at its peak in year 5 (2024/25) and then reduces thereafter as there is sufficient cash to repay debt. Repayment is expected to occur in year 28 (2047/48)) of the projections when all debt is repaid in full.

Reserves
Retained earnings are forecast to reduce in years 1-4 as a result of losses generated after paying our costs of borrowing. The revaluation reserve increases each year as a result of valuation adjustments for our housing stock. These valuation adjustments increase the value from gross cost to expected value using the EUV-SH methodology.

3.3 Statement of Cash Flow

Cash Flow	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Net Cash from Operating Activities	86,680	92,818	103,036	108,580	114,417
Core & Other Capital Expenditure	(50,974)	(48,437)	(46,330)	(49,911)	(51,857)
New Build Expenditure (net of grant)	(27,404)	(22,034)	(20,562)	(20,941)	(24,832)
Net Cash after Investing Activities	**8,302**	**22,347**	**36,144**	**37,728**	**37,728**
Net Finance Costs	(49,553)	(52,453)	(53,798)	(54,469)	(55,196)
Net Movement in Cash	**(41,251)**	**(30,106)**	**(17,654)**	**(16,741)**	**(17,468)**

The net movement in cash improves over the period as efficiency measures are realised and rental income from new build properties can be recognised. Debt hits its peak in year 5 of the forecasts, however, thereafter the business will generate sufficient cash resources to both service its debt and repay an element of the capital borrowed. The table shows the cash requirement of the business and how this improves each year. The underlying business is cash generative in all years and this will contribute towards the financing costs of the business.

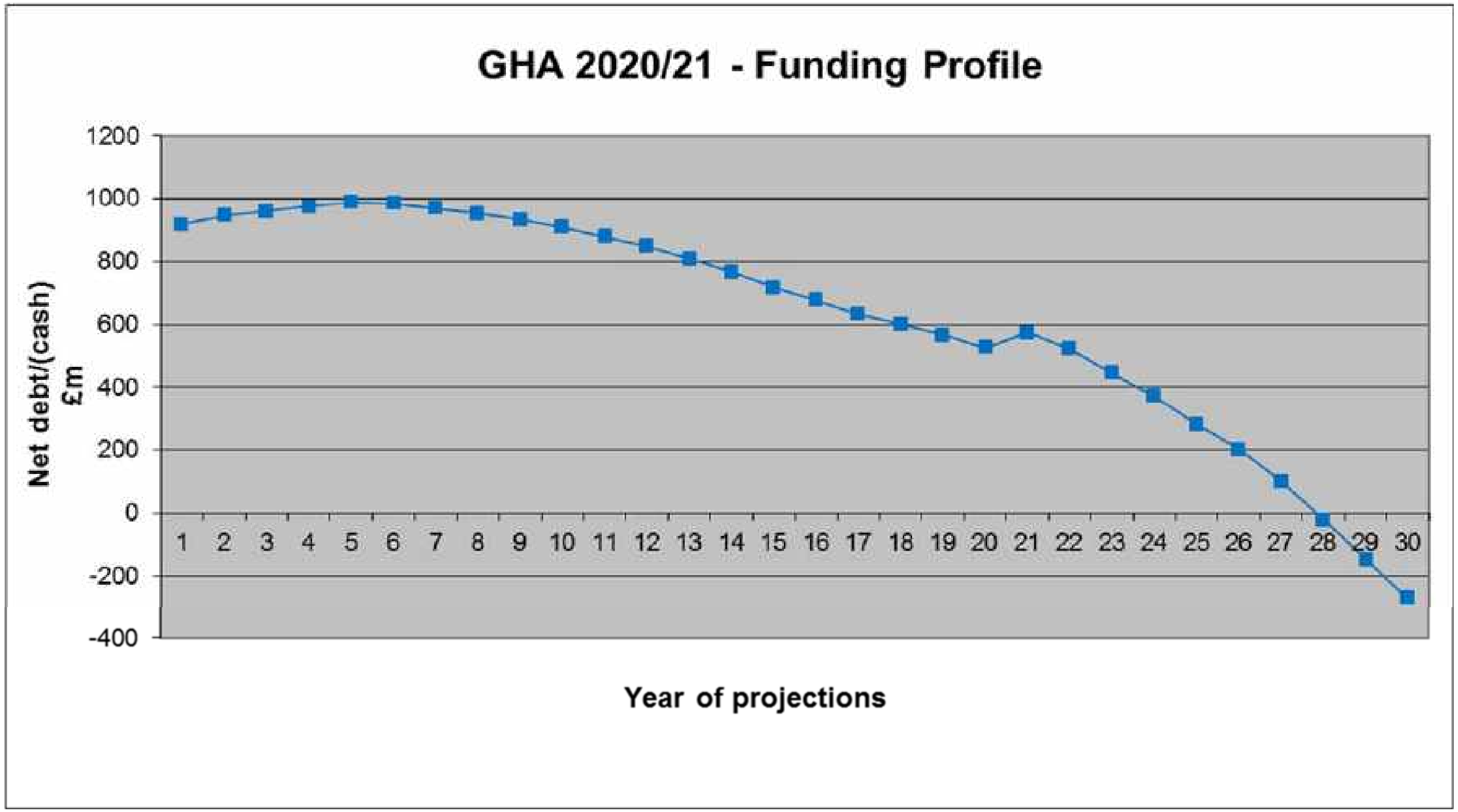
4. Funding and debt profile

The plan reflects the group funding arrangements through Wheatley Funding Limited 1 (WFL1). GHA can borrow from WFL1, subject to debt facilities being available, what it can support with its assets and cash flows. GHA, together with all the other RSLs in the RSL Borrowing Group, needs to ensure that all external funding conditions at WFL1 level are met at all times, including compliance with financial covenants. Whilst there are no specific financial covenants at each RSL level it is the delivery of the approved financial projections by each RSL (as set out in section 2 above for GHA) that is key to meeting funding conditions at WFL1.

The resulting debt profile for GHA is as follows:

Debt indicator	Value
Peak debt	£989.0m
Peak debt year	5 (2024/25)
Debt repayment year	28 (2047/48)
Closing cash	£271.4m

The graph below shows how GHA's debt level will increase in the short term as investment continues in the new build programme and the core programme. The debt starts to get repaid in year 5 (2024/25) of the plan and thereafter the debt levels reduce. By year 28 (2047/48) of the plan, there will be sufficient cash to repay debt with an estimated closing cash balance of £271.4m.


GHA 2020/21 - Funding Profile
1200
1000
800
600
400
200
0
-200
-400
Net debt/(cash) £m
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
Year of projections

5. Key financial parameters

Whilst there are no specific funding covenants for GHA, there are important financial parameters which need to be met to ensure that GHA remains financially sustainable in the long term and that its contribution to the RSL Borrowing Group, along with all the other RSLs in the group, allows WFL1 to meet its external funding conditions. Therefore the following criteria need to be taken into account when assessing the impact of any risks or business decisions on the financial projections:

Operating margin generation

In the long term, operating surplus needs to be sufficient to service debt, i.e. meet interest payments on debt balances and achieve overall financial surplus every year. The financial projections that GHA will generate the following operating margins over the first 5 years:

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Operating Surplus**	25,049	28,076	36,406	40,134	43,212
Operating Margin	13%	14%	18%	19%	19%

**Note that operating surplus has been adjusted here to remove grant income and property valuations and is the measure used to test covenants at a WFL1 level.

Cash Flow Strength

Cash flows need to be able to demonstrate that there is sufficient cash available to service intra-group debt each year and to repay funding within 30 years. A measure often used in the housing sector is “Earnings Before Interest, Tax, Depreciation and Amortisation, Major Repairs Included” (“EBITDA MRI”), which removes items that are non-cash and/or unrelated to operations, such as grant income and property valuation movements, to assess the funds available to meet interest payments and pay for all costs related to current stock.

Cash Flow Strength	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
EBITDA	86,680	92,818	103,036	108,580	114,417
Less Capital Investment (Existing Properties)	(47,817)	(45,256)	(43,080)	(46,591)	(48,464)
EBITDA MRI	38,863	47,562	59,956	61,989	65,953
Net Finance Costs	(49,553)	(52,453)	(53,798)	(54,469)	(55,196)
EBITDA MRI less Finance Costs	**(10,690)**	**(4,891)**	**6,158**	**7,520**	**10,756**
Interest Cover	0.78x	0.91x	1.11x	1.14x	1.19x

In years 1 and 2 of the plan interest costs exceed EBITDA MRI reflecting the level of investment in our core investment programme. As income increases on completion of the additional units and efficiency savings are realised the ratio improves and by year 3 is sufficient to cover borrowing costs and its capital investment. Over the longer term it is projected that debt can be repaid in year 28 of the plan with £147.7m of cash generated by year 30.

Asset cover

One of the metrics which governs overall borrowing limits is the value of the owned asset base. The GHA investment and development programme is supported by intra-group borrowing from WFL1 which operates on a Group wide borrowing and asset security basis. Assets are typically based on the cash flows associated with these assets, business decisions, e.g. in relation to rent growth, will have an impact on asset values.

6. Risk analysis

We have performed sensitivity analysis showing the potential impact on the plan of key risk factors. As well as general risks relating to inflation and the cost base.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.78**	**0.91**	**1.11**	**1.14**	**1.19**	**£989.0m**	**28**	**£271.4m**	
1	Cost inflation decreases to 2.5% from year 3	0.78	0.91	1.12	1.14	1.20	£987.9m	27	£423.8m	As expected this has a positive impact on the Business Plan, more so in later years as the compound effect of lower than assumed inflation results in improved performance and cash flows. Year of debt repayment is brought forward by one year, cash at year 30 increases by £152.4m
2	Rent increase reduced to 3% for duration of plan	0.78	0.89	1.08	1.08	1.12	£999.8m	NA	NA	In early years EBITDA MRI cover deteriorates, though still exceeds 1 by year 3. The compound effect of the lower rent causes debt to remain outstanding over the 30 years. In mitigation, costs of operation, investment and new build would be reviewed in order to reduce the overall cost and cash requirement to within a manageable level.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.78**	**0.91**	**1.11**	**1.14**	**1.19**	**£989.0m**	**28**	**£271.4m**	
3	Bad debt increases by 1%	0.75	0.87	1.07	1.09	1.14	£1,000m	30	£82.5m	The increase to bad debt causes debt repayment to be delayed by two years, with peak debt increasing £11m, and year 30 cash decreasing £188.9m. The monthly reporting process would identify any trend towards a deterioration of the bad debt position, allowing for time to understand the reasons and work towards resolution.
4	Employee costs increase by 2% higher (4.2%) in year 2.	0.78	0.89	1.10	1.12	1.17	£993.1m	29	£203.5m	Interest cover is marginally affected, and remains on trend, being >1 by year 4. Peak debt increases by £4.1m and closing cash is reduced by £67.9m due to the higher employee cost base from year 2 and the compound effect of future employee pay increases. Operational cost efficiencies would be sought elsewhere in order to mitigate any impact from increased employee costs.
5	Repairs & maintenance costs are £3m higher per year for the duration of the plan	0.72	0.84	1.04	1.06	1.11	£1007.6m	31	NA	EBITDA MRI reduces but remains on trend. The main impact is that debt cannot be repaid within 30 years, with peak debt increasing £18.6m. In mitigation cost efficiencies would be sought elsewhere in the event of increasing repairs and maintenance, with a focus on new build and capital investment.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.78**	**0.91**	**1.11**	**1.14**	**1.19**	**£989.0m**	**28**	**£271.4m**	
6	The introduction of a new housing standard requires additional capital investment of £10m over the course of years 2 and 3	0.78	0.80	1.00	1.12	1.18	£1001.6m	29	£229.6m	The additional investment has a significant impact on interest cover in years 2 and 3 due to the effect of additional capex reducing cash surplus, and increased interest costs as a result of additional debt funding; however, though recovers from year 4. Peak debt increases £12.6m and repayment is delayed by one year to year 29. Closing cash reduces by £41.8m. In mitigation any non-essential works would be delayed in order to accommodate investment priorities, and cost efficiencies would be sought within the operational cost base and new build programme.
7	New Build schemes are all delayed by 3 months	0.78	0.91	1.12	1.14	1.20	£986m	28	£270.4m	This has the effect of delaying the net operating surplus generated by new build units; costs of finance increase due to debt being held for longer than anticipated and the organisation is also potentially exposed to inflated costs brought about by the delay. The decrease to peak debt is due to the delayed spend causing a change to the profile of debt requirements (peak debt is lower, but is for longer). Closonmg cash decreases by £1m, mainly relating to lost rent. Whilst GHA can absorb these impacts, the development team would endeavour to reduce the impact of this through contract negotiation and planning forward for known issues.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.78**	**0.91**	**1.11**	**1.14**	**1.19**	**£989.0m**	**28**	**£271.4m**	
8	A major house builder goes into administration affecting 180 units of GHA's new build programme, delaying completion by 6 months and increasing costs by 20%	0.78	0.91	1.11	1.13	1.19	£994.6m	28	£251.6m	Interest cover decreases in years 4 and 5 due to the additional debt requirement to complete the scheme, increasing interest costs. The delayed handover of completed units also means rent is not being generated until later. Peak debt increases £5.6m, and closing cash decreases by almost £19.8m. In mitigation we would expect that this would be picked up by our monthly monitoring of contract exposure, allowing time for resolution before the contractor fell into administration. We would seek to absorb any impact from this within the investment programme funding allocation, and by reducing non-essential work within the capital investment programme.

Cube

Better homes, better lives
www.cubehousing.co.uk

Cube HA Financial Projections
2020/21

Wheatley Group

1. Headlines

Cube is on track to complete 133 social rent new build properties. Investment of £6m in our existing homes is also on track to be made.

The 2020/21 five year financial projections include:

- Provision to build 241 new social rent homes
- A further £24m of investment in existing housing stock
- Contribution of £1m to the Group's IT investment, which is required to make our operating practices more efficient
- £0.9m in donations to the Wheatley Foundation

Throughout the five year period presented Cube's development programme is on-going which means the statutory surplus, net assets and interest cover reported are all low (although increasing over the period) and there is a net cash outflow each year (before debt finance).

Cube's peak net debt is in 2026/27 (year 7) and finance costs on the debt borrowed from Wheatley Funding No 1 Limited steadily increase over the five years. This is in advance of the significant benefit from increased rental and lease income and lowers the statutory surpluses reported.

It is important to note that rent increases in line with those assumed in our strategy, 'Inspiring Ambition, Unleashing Potential', and continued control of costs are an important aspect of managing the financial position.

2. Key Assumptions

The key financial assumptions in the Cube 2020/21 Business Plan are highlighted below. All figures include VAT and inflation unless stated otherwise.

2.1 Stock

a) Stock numbers

Opening stock numbers in the plan reflect the actual stock reported in the statutory accounts as at 31 March 2019, updated for developments which are due to complete in 2019/20 (see table 2 for a breakdown) and shared ownership disposals. Table 1 below shows the split of Cube's opening stock.

Table 1 – Split of stock by type as at March 2020

Unit Type	Units
General Needs and Supported	3,723
Shared Ownership	27
Total (Social)	3,750
Mid-Market Rent	27
Total	3,777

Cube's strategic plan for 2015-20 aimed to grow housing stock by 623 properties (411 social and 212 MMR). It is projected that a total of 542 units (447 social and 95 MMR) will be completed by March 2020, some 81 units lower due to the timing of the Queen's Quay development which was included in the original five year plan target.

b) Stock Profile – Social Housing

Cube's Strategic Plan for 2015-2020 aimed to grow its social housing stock by 411 units. At 31 March 2020 it's expected that a total of 447 new units will have been completed. Table 2 outlines the developments and the year of completion.

Table 2 – Social rent units completed

Year	Developments	Units
2015/16	Beardmore Place, Bankend Street	69
2016/17	Bilsland Drive	34
2017/18	Kelvindale Place, Liddlesdale Road	59
2018/19	Kelvindale Place, Liddlesdale Road, Carrick Terrace, Auld St, Ruchill, Barrhead South	152
2019/20	Dumbain, Bonhill PS, Stirling Rd and Westcliff	133
Total		**447**

c) Stock Profile – Other Affordable Housing

Cube's Strategic Plan for 2015-2020 aimed to grow its mid-market Rent (MMR) housing stock by an additional 212 units, noting that this was a provisional allocation between social and mid-market rent homes. MMR properties provide an attractive, low cost, alternative in areas where the Private Rented Sector is considered substandard. The properties provide a greater choice of housing options for customers in our communities who receive a low to moderate salary and have proven to be popular. Table 3 outlines the developments, the year of completion and any sales. No MMR properties were completed in 2019/20.

Table 3 – Mid-market rent units completed

Year	Development	Units
2015/16	Milncroft Place	22
2016/17	Ellerslie Rd	46
2018/19	Ruchill	27
Total Completed		**95**
2018/19 sale to Lowther Homes	Milncroft Place and Ellerslie Rd	(68)
Cube MMR Units		**27**

As planned, 68 units were sold in 2018/19 to Lowther Homes. A total of 27 MMR units were completed in 2018/19 as part of the Ruchill development. Cube has retained ownership of these units and they are managed under a lease arrangement with Lowther Homes with the letting and management risk being taken by Lowther. On-going capital works costs will remain for the account of Cube and these costs are contained within the business plan assumptions moving forward.

d) Stock Profile - New build completions

The 2020/21 projections assume a further 241 social rent units can be delivered in the next five years. Table 4 below shows the planned profile of social housing stock (includes 27 MMR stock, but excludes shared ownership units) over the period of the projections.

Table 4 – Housing stock numbers (ex SO)

	2020/21	2021/22	2022/23	2023/24	2024/25
Opening Stock	**3,750**	**3,750**	**3,825**	**3,932**	**3,991**
New Build	-	75	107	59	-
Closing Stock	**3,750**	**3,825**	**3,932**	**3,991**	**3,991**

2.2 Income

a) Rent and Service Charge Income

The plan assumes an average weekly rent based on the current average rent and, subject to Board approval, a 3.4% rent increase in April 2020. In addition to rental income Cube also receives income from service charges. Based on current charges the income received is forecast to be £606k per annum (excluding new build), with supported accommodation service charges being significantly higher than general needs. Table 5 shows the rent and service charge growth assumptions over the next five years.

Table 5 – Rent and service charge increase assumptions

Rent Increases	2020/21	2021/22	2022/23	2023/24	2024/25
Increase %	3.4	3.5	3.5	3.5	3.5

The projections assume no further LivingWell properties, other than the existing ones at Kelvindale, Gorget and Ruchazie.

b) Other Income

In addition to rental and service charge income Cube generates significant income from a number of other sources.

Rental Type	Service Description
Garage Rents	Cube receives income from the rental of garages and lock ups. In line with current income levels and voids this is assumed at £62k per annum.
MMR Lease Income	Lease income of £135k from Lowther Homes for the 27 unit MMR development at Ruchill

Rental Type	Service Description
Commercial	Cube receives income from radio masts at the top of a number of multi-storey blocks and office rental. In line with current income level the projections assume annual commercial income of £89k.

Income	
Factoring Income	Cube's factored properties are currently administered by YourPlace and will fully transfer to Lowther on the merger of the two businesses when the timing of which is subject to the date of final approval from the Financial Conduct Authority ("FCA"). The service reports a nil surplus/deficit in Cube's accounts.
District Heating Scheme	The biomass district heating schemes operates at Collina, Gorget and Broomhill. Annual income of £335k has been assumed in the financial projections, and a small deficit is allowed for.

2.3 Cost Inflation Assumptions

Inflation during 2019/20 continued on a downwards trend, and in December 2019 RPI was reported at 2.2%, with CPI at 1.3%, a reflection of weakening demand from households in their discretionary spending, a result of a number of uncertainties across the wider UK economy. However, markets are expecting inflation to rise in 2020/21 and we have held our expectation for cost inflation to move upwards to 3% retaining an element of prudence in our forecasts.

Table 6 – Inflation assumptions

Inflation	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
General cost inflation	0%	3.00%	3.00%	3.00%	3.00%
Wage inflation	0%	2.20%	2.20%	2.20%	2.20%

2.4 Operating performance

The percentage of rent lost to voids and bad debts has been based on historical performance together with our performance expectations going forward. Table 7 below shows the assumptions in the plan for the next five years.

Table 7 – Void, bad debt and arrears assumptions

Void, Bad Debt & Arrears	2020/21	2021/22	2022/23	2023/24	2024/25
Routine voids (%) – General Needs	1.3	1.3	1.3	1.3	1.3
Routine voids (%) – Supported	Varies from 1.3% to 11%				
Bad debts (%) – General Needs	3.0	3.0	3.0	3.0	3.0
Bad debts (%) – Supported	2.0	2.0	2.0	2.0	2.0
Arrears (£'000)	494	564	497	443	443

The plan assumes voids remain at a constant % of rental income. Current year to date performance overall is 1.0%, therefore our assumptions are prudent compared to historical rates.

The financial projections still include provision for higher void levels in our Homelink (supported) properties recognising the specialist nature of the service provided in this accommodation.

Business plan assumptions on the movement in arrears as a result of Universal Credit have been updated to reflect our experience and expectations going forward including:

- Increase in the number of tenants moving to universal credit (a total of 1,602 tenants – all tenants of working age)
- 80% of tenants who move to universal credit will have an increase in arrears, with this increase equivalent to 5 weeks rent; and
- Of this increased arrears balance it is assumed only 40% will be recovered which will take up to two years.

2.5 Management and Service costs

Cube's employee cost assumptions reflect Cube's direct staff structure. Additionally, Cube pays an appropriate share of the salaries of investment, NET's and Wheatley 360 staff. Improved working practices will ensure the growing asset base can be managed within the existing staff complement, as reflected in the static staff cost in the table below.

Running costs, which include day to day expenditure but exclude Initiatives and district heating scheme costs, are assumed to increase by 9% over five years. This increase relates to the additional costs assumed to manage the new social rent units delivered through the development programme.

The plan assumes recharges from Group, which includes employee and running costs for central services such as Human Resources, IT, Finance, Regeneration and the Transactional Hub, to reduce by 4% by 2022/23, remaining constant thereafter. This reflects further efficiency savings resulting from investment in back office services. Table 9 sets out the overall management costs are assumed in the plan.

The savings noted above are required in order to be able to re-invest in our business and grow our asset base.

Table 8 – management cost assumptions (excluding inflation)

Management Costs	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Employee Costs (excluding pension deficit)	3,113	3,113	3,113	3,095	3,095
Pension deficit contribution	540	557	0	0	0
Running Costs	875	877	920	950	957
Wheatley Solutions Recharge	1,455	1,413	1,402	1,402	1,402
Total	**5,983**	**5,960**	**5,435**	**5,448**	**5,455**

Service Costs

Service costs mainly relate to communal electricity and district heating. The increase in spend every other year is due to HIU inspections required every two years for dwellings connected to district heating schemes.

Table 9 – service cost assumptions (excluding inflation)

Service Costs	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Services (including District Heating)	949	1,006	949	1,006	949

Initiatives

Other Group recharges include provision for various initiatives which are available to tenants. The largest of these is our contribution to the Wheatley Foundation. The Wheatley Foundation is a charitable trust established with the aim of delivering community benefits. Cube will contribute £195k in 2020/21, reducing to £160k from year 4.

Initiatives also include the tenancy support service (TSS), provided by colleagues from Loretto Care, to help our tenants who are struggling to sustain their tenancy due to underlying mental health or other personal challenges. Our contribution to TSS is £192k per annum.

2020/21 also includes support for The Helping Hand Fund of £60k; the fund providing support to those customers experiencing severe hardship. In addition, all tenants can talk with a Welfare Benefits or Fuel Advisor for support in managing their money and bills. The aim of these initiatives is to help our tenants sustain their tenancy, and to continue to improve our performance in tenancy sustainment for more than a year.

These provisions are considered to be an investment in creating strong and sustainable communities and providing better opportunities for our tenants. It is anticipated that this will contribute to the sustainability of the income stream for Cube over the long term.

Table 10 – Other Group Recharges - Initiatives (excluding inflation)

Other Group Recharges	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Initiatives	460	392	385	339	332

2.6 Asset management and growth

a) Revenue Repairs and Maintenance

Following the creation of the joint venture with City Building, the plan assumes further efficiency savings in repair expenditure through better working practices and closer collaboration City Building. Table 11 summarises the revenue repairs and maintenance in the plan.

Table 11 – Planned and Routine Maintenance costs (excluding inflation)

Repairs & Maintenance	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Routine Maintenance	1,598	1,537	1,623	1,627	1,773
Planned Maintenance	1,061	1,077	1,065	1,054	1,042
Total	**2,659**	**2,614**	**2,688**	**2,681**	**2,816**
Average No. of Units	3,723	3,761	3,852	3,935	3,964
Average Repair £ cost per unit	**£714**	**£695**	**£698**	**£681**	**£710**

b) Capital Investment

Cube's existing stock fully meets the Scottish Housing Quality Standard (SHQS) and has benefited from a major programme of fire safety works in the last two years. The current Strategic Plan involved investment of £40m in existing properties over the five years 2015-20. Over £40m has already been invested and the projections allow for a further £23.6m in existing properties over the period of our new five year strategy, 'Inspiring Ambition, Unleashing Potential'. This is possible due to increased operational efficiencies in management costs and repairs and maintenance expenditure, and access to borrowing via the Group. Table 12 presents the capital programme for the next five years. Within the Core Programme (excluding capitalised repairs) 5% (£1.9m) has been allocated to local priorities with spending decisions made in consultation with and led by our customers.

Table 12 – Capital investment programme (excluding inflation)

Capital Investment	2020/21	2021/22	2022/23	2023/24	2024/25	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Core Programme (including capitalised repairs)	3,168	3,592	3,842	3,422	3,329	17,354
Void Repairs	834	837	841	844	847	4,204
Other	269	267	265	263	261	1,326
Medical Adaptations	139	139	139	139	139	695
Total	**4,410**	**4,836**	**5,087**	**4,668**	**4,577**	**23,579**

The purpose of the core investment programme is to improve and maintain the quality of our homes, shaped by feedback received from customers, to ensure our communities are great places to live and increase satisfaction of tenants with the quality of their home to 90% by 2020.

a) New Build Programme

The new build programme is set out at Section 1.1; 241 new Social housing units planned to be delivered over the next five years. One of the key themes in the 2020-2025 draft strategy is building communities and as part of this developing over 3,000 new homes. The projections include Cube's provisional share of this target. Table 13 summarises the investment in new build homes over the next five years.

Table 13 – New build funding profile (including inflation)

New Build Programme	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Development Costs	10,908	17,319	10,765	1,381	4,453	44,826
Grant Income (cash received)	9,688	8,570	3,441	57	2,635	24,391
Net Cost	**1,220**	**8,749**	**7,323**	**1,324**	**1,818**	**20,435**
Completed Units	0	75	107	59	0	241

b) ICT

In order to continue to deliver service development and improvement, the projections include a provision of £1m over the next five years. This represents Cube's share of the Group capital IT investment programme, and includes, increasing the number of online services offered and direct video calling for customers to our transactional hub.

2.8 Operating Cost per Unit

As a result of the assumed efficiencies in management costs and repairs and maintenance, our operating costs per unit, excluding district heating, depreciation and finance costs, decrease over the five year period and are set out in Table 14 below.

Table 14 – Projected operating cost per unit (excluding inflation)

Operating Costs (£'000)	2020/21	2021/22	2022/23	2023/24	2024/25
Operating Costs	9,102	8,966	8,508	8,467	8,603
Average No. of Units in year	3,723	3,761	3,852	3,935	3,964
Operating Cost per Unit	**2,445**	**2,384**	**2,209**	**2,152**	**2,170**

This represents an 11.2% saving to the operating cost base over the five year period. Efficiency savings will also arise as due to continuing investment in service transformation, including the introduction of self-service and automated services.

2.9 Interest Rate assumptions

The new build programme planned requires debt finance to be drawn down over time. In line with the wider Group funding strategy, borrowing is advanced from Wheatley Funding No 1 Limited (WFL1) at an assumed blended all in average funding rate of 5.25%. The blended funding rate reflects a combination of bank and bond funding, any fixed rate arrangements in place and any monitoring or commitment fees payable by WFL1 to external funders and is consistent across all Group subsidiaries.

Table 15 – Interest rate assumptions

Interest Rates	2020/21	2021/22	2022/23	2023/24	2024/25
Interest Payable (Group Funding)	5.25%	5.35%	5.35%	5.35%	5.35%
Interest Receivable	0.50%	0.75%	1.00%	1.50%	1.50%

3. Financial projections

3.1 Statement of Comprehensive Income

Table 16 – Income and expenditure projections

Statement of Comprehensive Income	2020/21	2021/22	2022/23	2023/24	2024/25
Net Rental Income	18,841	19,531	20,847	22,085	22,902
Other Income (including MMR lease income)	746	761	776	792	808
Grant Income	139	7,570	10,427	4,884	157
Total Income	**19,727**	**27,863**	**32,050**	**27,760**	**23,866**
Management Costs	(7,393)	(7,530)	(7,116)	(7,323)	(7,445)
Repair and Maintenance Costs	(2,659)	(2,692)	(2,852)	(2,930)	(3,169)
Bad Debt	(543)	(562)	(587)	(612)	(632)
Depreciation	(7,349)	(7,648)	(8,544)	(9,169)	(9,488)
Operating Expenditure	**(17,943)**	**(18,433)**	**(19,099)**	**(20,033)**	**(20,735)**
Gain on Investment Properties	41	42	43	44	44
Operating Surplus	**1,825**	**9,472**	**12,993**	**7,771**	**3,176**
Operating Margin (%)	**9%**	**34%**	**41%**	**28%**	**13%**
Finance Costs	(5,147)	(5,316)	(5,826)	(6,221)	(6,283)
Housing Property Valuation Movement	4,548	(3,950)	(7,440)	52	6,415
Total Comprehensive Income	**1,226**	**206**	**(272)**	**1,602**	**3,308**

Rental and Other Income
Investment in the new build programme & assumed rent increase will generate growth in rental income of 21.6% over the next 5 years.

Grant Income
In line with SORP 2014, the projected Income and Expenditure account shows recognition of grant income upon completion of the properties. The result of this is operating margin increasing or decreasing in line with the level of grant income. Depreciation will increase in line with an increased asset base.

Investment Property Valuation Movement
Mid-market rent properties are held on the balance sheet as Investment Properties. These properties are valued annually, with any increase or decrease in valuation recognised within the Income & Expenditure account.

Expenditure
Even with the planned asset growth, improved working practices and closer collaboration with our service providers over the next 5 years will result in efficiency savings that achieve a 11.2% reduction in operating cost per unit in real terms.

Finance Costs
Interest payable on our borrowings increases over the five years as debt increases, to fund the new build programme.

Housing Property Valuation Movement
Social rent properties are held on the balance sheet at valuation. These properties are valued annually, with any increase or decrease in valuation recognised within the Income & Expenditure account, below the operating surplus line.

Statutory Surplus/(Deficit)
The completion of new units has a significant impact on the reported statutory surplus/(deficit). Recognition of grant income in relation to completed units increases the reported operating surplus; however, this is offset by a downward valuation of housing properties in the year of completion. Under SORP 2014 new build grants are not taken into account when calculating valuation movements. In general, the gross development cost, i.e. excluding grant, of these newly completed properties will be higher than the EUV-SH valuation and results in a downward valuation. We have adopted a highly conservative approach to valuation adjustments in the projections and the downward valuation adjustments presented are worst case scenario.

3.2 Statement of Financial position

Table 17 – Statement of financial position projection

Statement of Financial Position	2020/21	2021/22	2022/23	2023/24	2024/25
Housing Assets and Investment Properties	142,933	154,430	155,407	153,428	160,550
Other Fixed Assets	3,704	3,384	3,048	2,719	2,395
Total Fixed Assets	**146,637**	**157,814**	**158,455**	**156,147**	**162,946**
Current Assets	4,957	5,027	4,960	4,906	4,906
Current Liabilities	(17,832)	(23,709)	(12,110)	(7,436)	(10,071)
Net Current (Liabilities)/Assets	**(12,876)**	**(18,682)**	**(7,150)**	**(2,530)**	**(5,165)**
Long-Term Liabilities	(101,194)	(106,359)	(118,803)	(119,513)	(120,369)
Net Assets	**32,568**	**32,774**	**32,502**	**34,103**	**37,412**
Retained Earnings	32,568	32,774	32,502	34,103	37,412
Total Reserves	**32,568**	**32,774**	**32,502**	**34,103**	**37,412**

Housing Assets

The plan assumes Housing Property assets to increase 12.3% over five years due to the construction of 241 additional properties and an assumed increase in the value of our existing stock as a result of investment.

Other Assets

This includes the CHP plant at Wyndford, district heating scheme energy centres at Broomhill, Collina and Gorget, and investment in our offices at Maryhill Burgh Halls and Dumbarton. The decrease in asset value is due to annual depreciation costs. No significant additions are planned to other fixed assets.

<u>Current Assets</u>

Current assets include cash, rent arrears, net of bad debt provision; and other debtors, such as office rent and insurance prepayments. The table shows current assets remaining fairly static across the five years, due to matching debt drawdowns with cash requirements.

<u>Current Liabilities</u>

Current liabilities are high throughout the five year period due to the deferral of grant income received until the relevant scheme is complete. Deferred grant income is a liability.

<u>Long-Term Liabilities</u>

Long-term liabilities mainly relate to the loan due from Cube to Wheatley Funding Limited 1 (WFL1) and deferred income. The net balance due to WFL1 increases from £96.3m at March 2020 to £117.8m at March 2025, funding new build development. Peak net debt is in year 7 (2026/27) and is £122.6m.

<u>Retained Earnings</u>

Retained earnings are planned to increase from £31.3m at March 20 to £37.4m at 31 March 2025, reflecting the cumulative statutory surplus of £6.1m projected over the next five years. Whilst property valuation movements assist the accumulation of reserves, the strong operating surplus is the main reason for the increase over the period, reflecting the strong income base, and cost efficiencies.

3.3 Statement of Cash flow

Table 19 – Cashflow projections

Cash Flow	2020/21	2021/22	2022/23	2023/24	2024/25
Net Rental Income	19,519	20,265	21,713	22,933	23,696
Operating Expenditure	(10,540)	(10,712)	(10,431)	(10,714)	(11,076)
Net Cash from Operating Activities	**8,979**	**9,554**	**11,282**	**12,219**	**12,620**
Core & Other Capital Expenditure	(4,597)	(5,169)	(5,591)	(5,301)	(5,357)
New Build Expenditure	(10,908)	(17,319)	(10,765)	(1,381)	(4,453)
Grant Income	9,688	8,570	3,441	57	2,635
Net Cash used in Investing Activities	**(5,817)**	**(13,919)**	**(12,914)**	**(6,625)**	**(7,175)**
Finance Costs	(5,150)	(5,556)	(6,048)	(6,300)	(6,296)
Net Movement in Cash	**(1,989)**	**(9,921)**	**(7,680)**	**(706)**	**(852)**

Net Cash from Operating Activities

The plan assumes cash from operating activities to increase by 41% over the course of the projections. This increase is due to the completion and handover of 241 new build properties, generating additional income, and the operating cost per unit decreasing 11.2% over the same period.

Net Cash used in Investing Activities

This reflects the on-going core programme and other investment works, and the new build programme.

Finance Costs

This reflects the interest due on our loan with Wheatley Funding No 1 Limited. As expenditure is incurred to pay for our new build programme, Cube will use existing cash resources, followed by drawing down money from Group. Peak net debt is reached in 2026/27, which is year 7 of the plan; after this point in the absence of further new build, debt reduces as repayments are made, and the corresponding finance costs reduce.

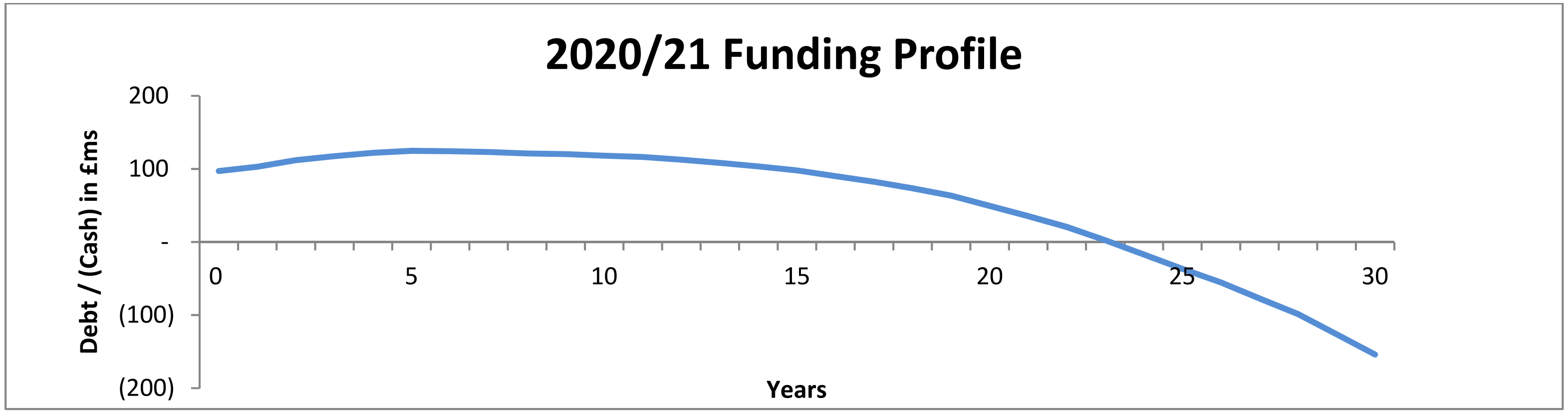
Net Movement in Cash

In the first five years of the plan we anticipate a £21.2m net decrease in cash. This is due to significant investment in our existing properties, and the new build programme, in line with our strategic objectives.

4. Funding and debt profile

Cube can borrow from WFL1 providing it can support the debt levels with its asset base and cash flows. Cube, together with all the other RSLs in the RSL Borrowing Group, needs to ensure that all external funding conditions at WFL1 level are met at all times, including compliance with financial covenants. Whilst there are no specific financial covenants at each RSL level it is the delivery of the approved business plan financials by each RSL (as set out in section 2 above for WLHP) that is key to meeting funding conditions at WFL1.

Debt indicator	Value
Peak net debt	£122.6m
Peak debt year	7
Debt repayment year	24
Cash at Year 30	£139.1m



5. Key financial parameters

a) WFL1 Funding

Whilst covenants attached to WFL1 funding are assessed at Group level, rather than individual RSL level, there are important financial parameters which need to be met to ensure that Cube remains financially sustainable in the long term and that its contribution to the RSL Borrowing Group, along with all the other RSLs in the group, allows WFL1 to meet its external funding conditions.

Therefore, the following criteria need to be taken into account when assessing the impact of any risks or business decisions on projections:

i. Operating margin generation

In the long term underlying operating surplus (excluding grant income and property valuation movements) needs to be sufficient to service debt, i.e. meet interest and capital payments on debt balances and achieve overall financial surplus every year. The business plan assumes that Cube will generate the following operating margins:

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Income (excluding grant income and property valuation movement)	19,588	20,292	21,623	22,876	23,710
Adjusted Operating Surplus	1,645	1,860	2,524	2,844	2,975
Adjusted Operating Margin (%)	**8.40%**	**9.16%**	**11.67%**	**12.43%**	**12.55%**

The adjusted operating margin, which excludes grant income and valuation movements, is the measure used to test covenant compliance. It is lower than the operating margin reported in the Statement of Comprehensive income at 3.1, illustrating the significant impact that the recognition of grant income on completion of new build has on the results. The margin increases over the five years due to additional rental income generated from completed new build units, as well as efficiency savings.

ii. Cash flow strength

Cash flows need to be sufficient to demonstrate that there is sufficient cash available to service intra-group debt each year and to repay funding within 30 years. EBITDA MRI (earnings before interest, tax, depreciation and amortisation and taking into account major repairs investment spend) removes items that are not cash and/or unrelated to underlying operations, such as grant income and property valuation movements, to assess the funds available to meet interest payments. A ratio > 1 means that there is sufficient capacity to meet interest payments as they fall due. As the debt principal must also be repaid, long term, the interest cover ratio needs to be comfortably over 1 to demonstrate sufficient capacity to repay capital.

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
EBITDA MRI	4,396	4,338	5,477	6,712	7,107
Net Interest Payable	5,147	5,316	5,826	6,221	6,283
Interest cover	**0.85**	**0.82**	**0.94**	**1.08**	**1.13**

Note that EBITDA MRI increases across the five years as rental income from completed new build properties is generated. The interest cover won't improve significantly until the development programme completes as during this period Cube's debt is continuing to increase (and related interest) but without the benefit of all the additional rental income from the units.

Increases in rental income (as noted in paragraph 2.2) and continuing management of the cost base during this period are of extreme importance.

The long term financial projections currently assume that debt can be repaid in Year 24 of the plan with £139.1m of cash generated in Year 30.

iii. Asset cover

One of the metrics which governs overall borrowing limits is the value of the owned asset base. The Cube investment and development programme is supported by intra-group borrowing from WFL1 which operates on a Group wide borrowing and asset security basis. Assets are typically based on the cash flows associated with these assets, business decisions, e.g. in relation to rent growth, will have an impact on asset values.

6. Risk analysis

We have performed sensitivity analysis showing the potential impact on the plan of key risk factors such as inflation and the cost base. These scenarios are presented in the below table, and consider changes to multiple Business Planning assumptions, the impacts of these, and mitigating measures.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.85**	**0.82**	**0.94**	**1.08**	**1.13**	**£122.6m**	**24**	**£139.1m**	
1	Cost inflation decreases to 2.5% from year 3	0.85	0.82	0.95	1.09	1.15	£122.4m	24	£155.1m	As expected this has a positive impact on the Business Plan, more so in later years as the compound effect of lower than assumed inflation results in improved performance and cash flows. Whilst there is no change to the year of debt repayment, cash at year 30 increases by £16m
2	Rent increase reduced to 3% for duration of plan	0.85	0.80	0.91	1.03	1.06	£124.9m	28	£40.7m	In early years EBITDA MRI cover deteriorates, though still exceeds 1 by year 4. The compound effect of these lower rent increases delays the debt repayment period by 4 years and decreases cash at year 30 by £98.4m. In mitigation costs, costs of operation, investment and new build would be reviewed in order to reduce the overall cost and cash requirement to within a manageable level.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.85**	**0.82**	**0.94**	**1.08**	**1.13**	**£122.6m**	**24**	**£139.1m**	
3	Bad debt increases by 1%	0.80	0.78	0.90	1.04	1.09	£124.5m	25	£121.9m	The increase to bad debt causes debt repayment to be delayed by one year, with peak debt increasing £1.9m, and year 30 cash decreasing £17.2m. The monthly reporting process would identify any trend towards a deterioration of the bad debt position, allowing for time to understand the reasons and work towards resolution.
4	Employee costs increase by 2% higher per year (4.2%) in year 2.	0.85	0.81	0.94	1.07	1.13	122.8m	24	£137.4m	Interest cover is only marginally affected, and remains on trend, being >1 by year 4. Peak debt increases by £0.2m and closing cash is reduced by £1.7m. Operational cost efficiencies would be sought elsewhere in order to mitigate any impact from increased employee costs.
5	Repairs & maintenance costs increase by £250k a year for duration of plan	0.79	0.76	0.89	1.02	1.07	£125.1m	25	£117.1m	Whilst there is a slight reduction to EBITDA MRI, the main impact is on peak debt (increasing £2.5m) and closing cash (decreasing £22m), with debt repayment being delayed by one year. In mitigation cost efficiencies would be sought elsewhere in the event of increasing management costs.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.85**	**0.82**	**0.94**	**1.08**	**1.13**	**£122.6m**	**24**	**£139.1m**	
6	The introduction of a new housing standard requires additional capital investment of £3m over the course of years 2 and 3	0.85	0.51	0.64	1.05	1.10	£126.8m	25	£127.8m	The additional investment has a significant impact on interest cover in years 2 and 3 due to the effect of additional capex reducing cash surplus, and increased interest costs as a result of additional debt funding; however, this is still on trend being >1 by year 4. Peak debt increases £4.2m and repayment is delayed by one year to year 25. Closing cash reduces by £11.3m. In mitigation any non-essential works would be delayed in order to accommodate investment priorities, and cost efficiencies would be sought within the operational cost base and new build programme.
7	New Build schemes are all delayed by 3 months	0.85	0.81	0.94	1.08	1.13	£122.9m	24	£138.2m	This has the effect of delaying the net operating surplus generated by new build units; costs of finance increase due to debt being held for longer than anticipated and the organisation is also potentially exposed to inflated costs brought about by the delay. Overall peak debt increases by £300k and cash at year 30 decreases by £900k. Whilst Cube can absorb these impacts, the development team would endeavour to reduce the impact of this through contract negotiation and planning forward for known issues.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.85**	**0.82**	**0.94**	**1.08**	**1.13**	**£122.6m**	**24**	**£139.1m**	
8	A major house builder goes into administration affecting almost half of Cubes development programme. This causes a 6 month delay to completions and increases costs by 20%	0.85	0.82	0.99	1.03	1.08	126.70	25	£128m	Interest cover increases in year 3 due to the delay to the scheme, meaning less debt has been drawn. This subsequently decreases in years 4 and 5 due to the additional debt requirement to complete the scheme, increasing interest costs. The delayed handover of completed units also means rent is not being generated until later. Peak debt increases by almost £4m, and closing cash decreases by almost £11m. In mitigation we would expect that this would be picked up by our monthly monitoring of contract exposure, allowing time for resolution before the contractor fell into administration. We would seek to absorb any impact from this within the investment programme funding allocation, and by reducing non-essential work within the capital investment programme.

WEST LOTHIAN

Better homes, better lives
www.wlhp.org

WLHP Financial Projections
2020/21

Wheatley Group

Classified as Internal

1. Headlines

West Lothian Housing Partnership is on track to complete 91 new social rent properties in 2019/20. Further investment of £280k in our existing homes is also expected to be achieved.

The 2020/21 updated financial projections include:

- Inclusion of 222 social rent properties transferred from Barony Housing Association;
- Provision to complete 317 new social and mid-market rent homes over the first five years, with a further 314 units to be delivered in the period up to March 2028; and
- A further £2.8m of investment in existing housing stock.

During the development period, the forecast bottom line statutory deficit, net assets, cashflow and ratios reflect the higher level of borrowing to support our new build programme.

WLHP's peak net debt is in 2027/28 and finance costs on the debt borrowed from Wheatley Funding Limited 1 steadily increases as we approach this year. This is in advance of the significant benefit from increased rental and lease income from the new units and lowers the statutory surpluses reported.

In the period after 2027/28 all new build units are completed creating an increase in rental income and realising operating cost per unit efficiencies. Overall this results in a strengthening the financial position of West Lothian Housing Partnership.

It is important to note that rent increases in line with those assumed in our strategy, and continued control of costs are an important aspect of managing the financial position.

2. Key Assumptions

The key financial assumptions in the 2020/21 Business Plan are highlighted below. All figures include VAT, where applicable but not inflation (unless stated otherwise).

2.1. Stock numbers

The 2020/21 WLHP Business Plan assumes an opening rented stock number of 749 social rent units. This is based on the 436 units owned by WLHP as at 1st April 2019, the expected completion of 91 new build units at Dixon Terrace and Kirk Lane plus the units due to be transferred from Barony HA.

The projections assume 291 new homes for social rent will be delivered in the next five years, with a further 314 completed by the end of 2027/28. This is an increase of 251 units compared to last year's plan and reflects the additional 250 new build units committed to as part of the Barony stock transfer. The split between social and mid-market rent has also been updated with the re-designation of the Jarvey street development as social rent units.

Of the new social rented homes, we anticipate 162 being handed over in 2020/21, namely 120 at Almondvale and 42 at Jarvey Street. Table 1 shows the planned profile of social housing stock over the period of the projections.

Table 1 – Social Housing Stock Numbers

	2020/21	2021/22	2022/23	2023/24	2024/25
Opening Stock	**749**	**911**	**962**	**1014**	**1040**
New Build	162	51	52	26	0
Closing Stock	**911**	**962**	**1014**	**1040**	**1040**

Stock Profile – Other Affordable Housing

In addition to social housing, the updated projections assume 26 units for mid-market rent will be delivered at Almondvale. These are planned to be completed and handed over in 2020/21. Table 2 below shows the movement in mid-market rent units over the period of the projections.

Table 2 – Mid-Market Rent Stock Numbers

	2020/21	2021/22	2022/23	2023/24	2024/25
Opening Stock	**-**	**26**	**26**	**26**	**26**
Acquired/ Developed	26	-	-	-	-
Closing Stock	**26**	**26**	**26**	**26**	**26**

These properties will be managed under a lease arrangement with Lowther Homes with the letting and management risk being taken by Lowther. On-going capital works costs will remain WLHP’s responsibility and these costs are contained within the business plan assumptions moving forward.

2.2. Rents and Service Charge Income

The plan assumes an average weekly rent based on the actual current average rent and, subject to Board approval, a 3.4% rent increase in April 2020. For the properties transferred from Barony HA the assumed rent increase is 2% for the first 3 years of the projections in line with the promises made to Barony tenants.

Table 3 – Rent and service charge increase assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Increase (existing WLHP tenants)	3.4%	3.5%	3.5%	3.5%	3.5%
Increase (Barony tenants)	2.0%	2.0%	2.0%	3.5%	3.5%

In addition to rental income WLHP also receive income from service charges. Based on current charges the income received is forecast to be £81k per annum. Costs equivalent to this income are assumed in respect of providing the service.

On completion of the MMR properties at Almondvale, lease income from Lowther will be received. The projected value of the lease is £120k per annum, with this expected to commence from March 2021.

2.3. Inflation Assumptions

Inflation during 2019/20 continued on a downward trend, and in December 2019 RPI was reported at 2.2%, with CPI at 1.3%, a reflection of weakening demand from households in their discretionary spending as a result of a number of uncertainties across the wider UK economy. However, markets are expecting inflation to rise in 2020/21 and we have held our expectation for cost inflation to move upwards to 3% retaining an element of prudence in our forecasts. The general cost inflation rates assumed within the financial projections are shown in the table below:

Table 4 – Inflation Assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Cost Inflation	3.00%	3.00%	3.00%	3.00%	3.00%

2.4. Operating Performance

The percentage of rent lost to voids and bad debts assumed has been based on historical performance together with our expectations going forward. Table 5 below shows the assumptions in the plan for the next five years.

Table 5 – Void, Bad Debt, and Arrears Assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Routine voids (%) (WLHP)	0.5	0.5	0.5	0.5	0.5
Bad debts (%) (WLHP)	2.0	2.0	2.0	2.0	2.0
Arrears (£'000)	93	109	112	102	96

The plan assumes voids losses for existing WLHP tenants of 0.5% of rental income. Current year to date performance reports minimal rent loss in void properties and therefore this is a prudent assumption compared to historical rates. For tenants transferring from Barony HA the assumption is for 3% voids. Again this is higher than the current year to date performance for Barony of 1.9% and takes account of the specific service provision in supported properties.

The bad debts assumption of 2% (1% for Barony tenants) is also higher than current performance and allows for an increase in recognition of the potential impact of Welfare Reform and the introduction of Universal Credit. This has been set cautiously because of the increasing impact of welfare reform on our tenants. Our Business Plan assumptions on movements in arrears as a result of universal credit have been updated to reflect our experience and expectations going forward including:-

- Increase in number of tenants moving to universal credit (a total of just over 200 tenants – all tenants of working age)
- 80% of tenants who move on to universal credit will have an increase in arrears, with this increase equivalent to 5 weeks rent; and
- Of this increased arrears balance it is assumed only 40% will be recovered with this recovery taking up to two years.

2.5. Management Costs

WLHP's employee cost assumptions reflect the existing five frontline housing staff, plus an additional 2 staff transferred from Barony and a Head of Housing (shared with Dunedin Canmore). Provision has also been made for pension past service deficit contributions.

Improved working practices will ensure the growing asset base can be managed within our current staff complement, as reflected in the static cost. Employee costs in year 3 decrease by £18k reflecting the end of the SHAPS pension past service deficit payments.

Running costs, which include day to day expenditure, are assumed to increase by 12% over five years. This increase relates to the additional costs assumed to manage the new social units delivered through the development programme.

The plan assumes a £59k recharge from Group, which includes employee and running costs for central services such as Human Resources, IT, Finance, Regeneration and the Transactional Hub, to remain static in real terms over the next five years.

Table 6 sets out the overall management costs assumed in the plan.

Table 6 – Management Cost Assumptions

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Employee Costs	546	546	528	528	528
Running Costs	426	441	460	467	475
Recharges from Group	59	59	59	59	59
Total	**1,031**	**1,046**	**1,047**	**1,054**	**1,062**

2.6. Asset Management and Growth

a) Revenue Repairs & Maintenance

WLHP's repairs service is delivered by Dunedin Canmore's property services team, and since the transfer from City Building on 1 April 2017 customer feedback has been excellent. Planned maintenance costs reflect a cyclical maintenance programme (gutter cleaning, painting and property MOTs), which help maintain the standard of our property assets and reduce future capital investment costs. Table 7 below summarises the revenue repairs and maintenance assumptions in the plan.

Table 7 – Planned and Routine Maintenance Costs

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Routine Maintenance	431	570	584	596	611
Planned Maintenance	151	151	151	151	151
Total	**582**	**722**	**735**	**747**	**762**
Average No. of Units	830	937	988	1,027	1,040
Average Repair £ cost per unit	**701**	**771**	**744**	**728**	**732**

b) Capital Investment

WLHP's existing stock fully meets the Scottish Housing Quality Standard ("SHQS"). The investment assumed within the plan is therefore intended to maintain this standard while also responding to our customers' investment priorities as set out in our Locality Plan.

The programme has been informed by our detailed knowledge of the stock together with the latest stock condition survey carried out by Savills. These surveys assess the condition of the stock and identify the investment required over a 30 year period based on agreed life cycle renewals and rates for work. The programme also reflects the commitments made to transferring Barony tenants to deliver additional investment in their properties.

Table 8 – Capital Investment Programme (excluding inflation)

£'000	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Core Programme	588	532	518	383	515	2535
Void Repairs	37	37	37	37	37	186
Medical Adaptations	20	20	20	20	20	98
Total	**645**	**589**	**575**	**439**	**572**	**2820**

We are committed to listening to our Board and local communities to identify priorities for investment. Key priorities include replacement programmes for kitchens, showers and boilers within our properties and environmental works to improve the perception of local areas. Changing demographics mean there is greater demand for appropriate housing for older people. Investment in medical adaptations will allow more of our tenants to remain in their homes for longer, helping to deliver our business objectives.

c) New Build Programme

The new build programme is set out at Section 2.1 and reports 291 social and 26 mid-market rent properties to be delivered over the first five years, a total of 317, with a further 314 completed by 2027/28. Table 9 summarises the investment in new build homes over the first five years.

Table 9 – New build Funding Profile (including inflation)

£'000	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Development Costs	18,020	9,007	1,112	10,960	14,167	53,266
Grant Income (cash received)	8,659	2,039	273	8,889	8,776	28,636
Net Cost	**9,361**	**6,967**	**839**	**2,071**	**5,392**	**24,630**

Building new affordable homes is the first line of our vision statement. The above financial plans therefore support this commitment.

2.7. Initiatives and Other Provisions

The financial projections continue to include a commitment to improve the wider communities in which we operate. Over the first 5 years of the plan, the following funding has been included:

- Helping Hand Funding of £2.4k in year 1 of the plan. This funding helps those in financial difficulty, particularly those who are in and out of jobs or whose benefits may change as a result of universal credit.
- Annual costs of £5k for the Tenancy Sustainment service that Loretto Care delivers on our behalf.
- Donations to the Wheatley Foundation totalling over £180k over the five years of the plan. This is used by the Wheatley Foundation to fund their projects which directly impact the lives of tenants. These projects include their bursary programme, training for vulnerable tenants looking to get back into employment, fuel and welfare benefit advice as well as fitness classes and the Home Comforts and Eat Well services.

2.8. Operating Cost per Unit

As a result of the assumed efficiencies in management costs, our operating costs per unit, excluding depreciation and finance costs, decrease over the five year period and are set out in Table 10 below.

Table 10 – Projected Operating Cost per Unit (real terms)

	2020/21	2021/22	2022/23	2023/24	2024/25
Operating Costs (£’000)	1,659	1,818	1,837	1,859	1,884
Average No. of SR Units in year	830	937	988	1,027	1,040
Operating Cost per Unit (£)	**1,999**	**1,941**	**1,859**	**1,811**	**1,812**

The trend shows that the plan assumes WLHP will become more efficient in its use of resources as it manages more units added through planned asset growth. Efficiency savings will also arise as due to continuing investment in service transformation, including the introduction of self-service and automated services.

2.9. Interest Rate Assumptions

The new build programme planned requires debt finance to be drawn down over time. In line with the wider Group funding strategy, borrowing is advanced from Wheatley Funding Limited 1 (“WFL1”) at an assumed blended all in average funding rate of 5.25% in 2020/21 and 5.35% thereafter. The blended funding rate reflects a combination of bank and bond funding, any fixed rate arrangements in place and any monitoring or commitment fees payable by WFL1 to external funders and is consistent across all Group subsidiaries.

The interest rate receivable on cash balances has also been revised to reflect current market expectations as shown.

Table 11 – Interest Rate Assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Interest Payable (Group Funding)	5.25%	5.35%	5.35%	5.35%	5.35%
Interest Receivable	0.50%	0.75%	1.00%	1.50%	1.50%

3. Financial Projections

a) Income and Expenditure Account

Table 12 – Income and Expenditure Projections

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Net Rental Income	3,552	4,545	4,963	5,251	5,539
Other Income (MMR lease income)	22	136	139	142	145
Grant Income	11,263	3,886	4,021	2,164	0
Investment Property Valuation Movement	(704)	(149)	4	47	48
Total Income	**14,132**	**8,419**	**9,127**	**7,604**	**5,732**
Management Costs	1,080	1,128	1,159	1,198	1,239
Repair and Maintenance Costs	582	743	780	817	857
Depreciation	1,702	2,273	2,554	2,658	2,773
Operating Expenditure	**3,364**	**4,145**	**4,493**	**4,673**	**4,869**
Operating Surplus	**10,767**	**4,274**	**4,634**	**2,931**	**863**
Operating Margin (%)	**76%**	**51%**	**51%**	**39%**	**15%**
Finance Costs	(918)	(1,775)	(2,025)	(2,081)	(2,125)
Housing Property Valuation Movement	(2,187)	(3,583)	(2,802)	(53)	(2,811)
Statutory Surplus/(Deficit)	**7,663**	**(1,084)**	**(193)**	**797**	**1,549**

<u>Rental Income and Other Income</u>
Investment in the new build programme and assumed rental increases will generate 56% growth in rental and other income over the next five years.

Grant Income
In line with SORP 2014, grant income is recognised as part of turnover in the projected Income and Expenditure account. The table shows recognition of grant income upon completion of the related properties.

The result of this is operating margin increasing or decreasing significantly in line with the level of grant income. Depreciation will increase in line with an increased asset base.

Investment Property Valuation Movement
Mid-market properties are held on the balance sheet as Investment Properties. These properties are valued annually, with any increase or decrease in valuation recognised within Operating Surplus.

Expenditure
Even with the planned asset growth, improved working practices over the next five years are expected to result in efficiency savings that will achieve a 9.4% reduction in operating cost per unit in real terms.

Finance Costs
Interest payable on our borrowings increases over the five years as our debt increases to fund the new build programme.

Housing Property Valuation Movement
Social rent properties are held on the balance sheet at valuation. These properties are valued annually, with any increase or decrease in valuation recognised within the Income & Expenditure account, below the operating surplus line.

Statutory Surplus/(Deficit)
The completion of new units has a significant impact on the reported statutory surplus/(deficit). Recognition of grant income in relation to completed units increases the reported operating surplus; however, this is offset by a downward valuation of housing properties in the year of completion. Under SORP 2014 new build grants are not taken into account when calculating valuation movements. In general, the gross development cost, i.e. excluding grant, of these newly completed properties will be higher than the EUV-SH valuation and results in a downward valuation. We have adopted a highly conservative approach to valuation adjustments in the projections and the downward valuation adjustments presented are worst case scenario.

b) Statement of Financial Position

Table 13 – Statement of Financial Position Projections

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Housing Assets & Investment Properties	60,724	64,654	61,293	70,381	85,555
Other Fixed Assets	173	126	75	44	94
Total Fixed Assets	**60,897**	**64,779**	**61,369**	**70,424**	**85,649**
Current Assets	574	589	592	582	577
Current Liabilities	(6,928)	(5,079)	(1,330)	(8,053)	(16,828)
Net Current (Liabilities)/Assets	**(6,354)**	**(4,490)**	**(738)**	**(7,471)**	**(16,251)**
Long-Term Liabilities	(32,088)	(38,918)	(39,453)	(40,979)	(45,874)
Net Assets	**22,455**	**21,371**	**21,178**	**21,975**	**23,524**
Retained Earnings	22,455	21,371	21,178	21,975	23,524
Total Reserves	**22,455**	**21,371**	**21,178**	**21,975**	**23,524**

Housing Assets

The plan assumes Housing Property assets to increase by £39.6m over five years from April 2020. This is due to the construction of 317 additional properties within this period, and an assumed increase in the value of our existing stock as a result of investment.

Other Assets

This includes the cost of leasehold improvements made to the Bathgate office. The decrease in asset value is due to annual depreciation costs. The plan does not assume any further significant additions.

Current Assets and Liabilities

Current assets include cash, rent arrears, net of bad debt provision; and other debtors. The table shows current assets remaining broadly consistent over the next five years, as any excess cash generated will be used to fund the investment programme.

The movement within current liabilities is driven by the receipt, and then release, of Housing Association Grant upon completion of new build units, as grant is deferred until the relevant scheme is complete.

Long-Term Liabilities

Long-term liabilities relates primarily to the loan due from WLHP to Wheatley Funding Limited 1 (WFL1). The balance due to WFL1 increases from £22,284k in April 2020 to £45,705k at March 2025 to fund investment in existing stock and new build. Peak net debt is in year 8 (2027/28) when outstanding debt net of cash reaches £61,059

Retained Earnings

Retained earnings are projected to initially reduce due to the statutory deficits resulting from assumed downward valuation movements in properties. In years 4 and 5, retained earnings start to increase as rental income streams from new build properties strengthen coupled with the benefit of cost efficiencies spread across a larger number of rental properties.

c) Cashflow

Table 14 – Cashflow Projections

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Net Rental Income	3,505	4,611	5,041	5,342	5,627
Operating Expenditure	(1,608)	(1,808)	(1,871)	(1,944)	(2,022)
Net Cash from Operating Activities	**1,898**	**2,803**	**3,170**	**3,398**	**3,604**
Core & Other Capital Expenditure	(789)	(755)	(762)	(636)	(854)
New Build Expenditure	(18,020)	(9,007)	(1,112)	(10,960)	(14,167)
Grant Income	8,659	2,039	273	8,889	8,776
Net Cash used in Investing Activities	**(10,150)**	**(7,722)**	**(1,602)**	**(2,707)**	**(6,245)**
Finance Costs	**(1,388)**	**(1,909)**	**(2,102**	**(2,215)**	**(2,253)**
Net Movement in Cash	**(9,640)**	**(6,829)**	**(533)**	**(1,524)**	**(4,894)**

Net Cash from Operating Activities

The plan assumes net cash from operating activities increases from £1,898k in 2020/21 to £3,604k in 2024/25, an increase of 90% over the five year period. This increase is due to the completion and handover of 317 units within this period (with an additional 314 units completing in future years) creating additional rental and lease income. The plan also allocates management and maintenance costs for each new unit, with operating expenditure increasing as a result.

Net Cash used in Investing Activities

This reflects the on-going core programme and other investment works, and the new build programme.

Finance Costs

Finance costs relate to the interest due on our loan with Wheatley Funding Limited 1. As expenditure is incurred to pay for our new build programme, WLHP will use existing cash resources, followed by drawing down money from Group. The projections assume the new build programme is completed in 2027/28. Peak net debt is reached that year and no further debt is expected to be drawn. Annual finance costs are therefore strongly linked to any increase or decrease in debt.

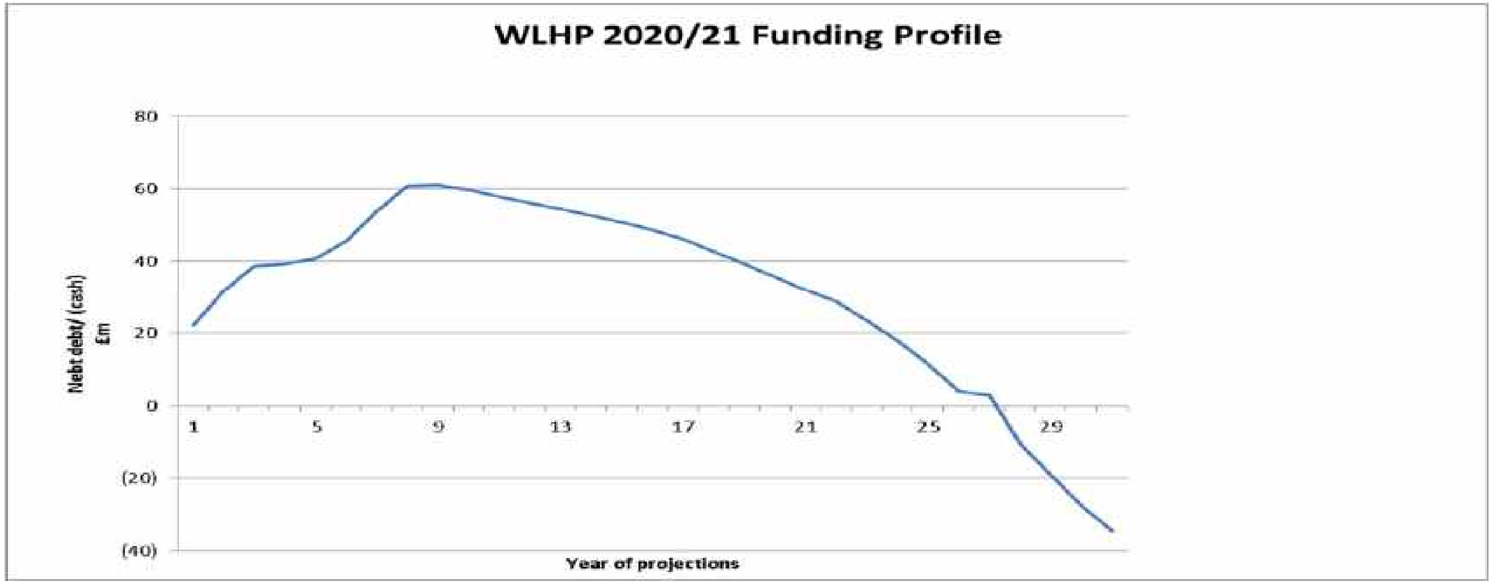
Net Movement in Cash

Across the five year of the plan we anticipate a £23.4m net decrease in cash. This is due to the significant investment in the new build programme.

4. Key Financial Parameters

WLHP can borrow from WFL1 providing it can support the debt levels with its asset base and cash flows. WLHP, together with all the other RSLs in the RSL Borrowing Group, needs to ensure that all external funding conditions at WFL1 level are met at all times, including compliance with financial covenants. Whilst there are no specific financial covenants at each RSL level it is the delivery of the approved business plan financials by each RSL (as set out in section 2 above for WLHP) that is key to meeting funding conditions at WFL1.

The resulting debt profile for WLHP is as follows:



Debt indicator	Value
Peak net debt	£61.1m
Peak net debt year	8 (2027/28)
Debt repayment year	26 (2045/46)
Cash at Year 30	£34.5m

The following criteria need to be taken into account when assessing the impact of any risks or business decisions on the projections:

i. Operating Margin Generation

In the long term underlying operating surplus (excluding grant income and property valuation movements) needs to be sufficient to service debt, i.e. meet interest and capital payments on debt balances and achieve overall financial surplus every year. The business plan assumes that WLHP will generate the following operating margins:

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Income (excluding grant income and property valuation movement)	3,574	4,681	5,102	5,393	5,684
Adjusted Operating Surplus	83	209	537	610	720
Adjusted Operating Margin	**2.33%**	**4.47%**	**10.51%**	**11.31%**	**12.66%**

As new build properties are completed, income increases and the operating costs per unit gradually decrease from efficiencies resulting in the operating margin increasing.

ii. Cashflow Strength

Cash flows need to be sufficient to demonstrate that there is sufficient cash available to service intra-group debt each year and to repay funding within 30 years. EBITDA MRI removes items that are non-cash and/or unrelated to underlying operations, such as grant income and property valuation movements, to assess the funds available to meet interest payments. A ratio > 1 means that there is sufficient capacity to meet interest payments as they fall due. As the debt principal must also be repaid, long term, the interest cover ratio needs to be comfortably over 1 to demonstrate sufficient capacity to repay capital.

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
EBITDA MRI	1,150	2,084	2,431	2,772	2,766
Net Interest Payable	1,388	1,909	2,102	2,215	2,253
EBITDA MRI less Finance Costs	**(238)**	**175**	**329**	**557**	**513**
Interest Cover	**0.83x**	**1.10x**	**1.16x**	**1.24x**	**1.23x**

The ratio is below 1 in the first year but is above 1 by year 2 and continues to increase throughout the remaining years of the plan. Increases in rental income and continuing management of the cost base during this period are of extreme importance.

The long term financial projections currently assume that debt can be repaid in Year 26 of the plan with £34.5m of cash generated in Year 30. This is based on the completion of 631 new build units in the next eight years, with WLHP having a revised asset base of 1,354 units.

iii Asset Cover

One of the metrics which governs overall borrowing limits is the value of the owned asset base. The WLHP investment and development programme is supported by intra-group borrowing from WFL1 which operates on a Group wide borrowing and asset security basis. Assets are typically based on the cash flows associated with these assets, business decisions, e.g. in relation to rent growth, will have an impact on asset values.

5. Risk Analysis

We have performed sensitivity analysis showing the potential impact on the plan of key risk factors such as inflation and the cost base. These scenarios are presented in the below table, and consider changes to multiple Business Planning assumptions, the impacts of these, and mitigating measures.

		EBITDA MRI Interest Cover					Cash flow			
Nr	**Risk description**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Peak net debt £m**	**Debt repaid**	**Cash (Year 30)**	**Mitigation**
Base Case		**0.83**	**1.10**	**1.16**	**1.24**	**1.23**	**61.1**	**26**	**34.5**	
1	Cost inflation decreases to 2.5% from year 3	0.83	1.10	1.16	1.26	1.26	60.4	26	38.8	As expected this has a positive impact on the Business Plan, more so in later years as the compound effect of lower than assumed inflation results in improved performance and cash flows. Whilst there is no change to the year of debt repayment, cash at year 30 increases by £4.3m

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £m	Debt repaid	Cash (Year 30)	
Base Case		**0.83**	**1.10**	**1.16**	**1.24**	**1.23**	**61.1**	**26**	**34.5**	
2	Rent increase reduced from 3.5% to 3% for duration of plan	0.83	1.09	1.15	1.24	1.23	61.5	28	19.2	In early years EBITDA MRI cover deteriorates slightly, though still exceeds 1 from year 2. The compound effect of these lower rent increases delays the debt repayment period by 2 years and decreases cash at year 30 by £15.3m. In mitigation costs, efficiency savings and review of services required to reduce costs.
3	Bad debt increases by 1%	0.80	1.07	1.13	1.23	1.22	61.6	27	29.1	The increase to bad debt causes debt repayment to be delayed by one year, with peak debt increasing £0.5m, and year 30 cash decreasing £5.4m. The monthly reporting process would identify any trend towards a deterioration of the bad debt position, allowing for time to understand the reasons and work towards resolution.

		EBITDA MRI Interest Cover					Cash flow			
Nr	**Risk description**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Peak net debt £m**	**Debt repaid**	**Cash (Year 30)**	**Mitigation**
Base Case		**0.83**	**1.10**	**1.16**	**1.24**	**1.23**	**61.1**	**26**	**34.5**	
4	Management costs are £50k higher each year	0.79	1.07	1.13	1.22	1.22	61.6	27	30.0	Interest cover is only marginally affected, and remains on trend, being >1 by year 2. Peak debt increases by £0.5m and closing cash is reduced by £4.5m. Operational cost efficiencies would be sought elsewhere in order to mitigate any impact from increased management costs.
5	Repairs & maintenance costs are 5% higher	0.79	1.07	1.13	1.22	1.22	61.5	27	30.6	As with management cost increases, there is a slight reduction to EBITDA MRI, the main impact is on peak debt (increasing £0.4m) and closing cash (decreasing £3.9m), with debt repayment being delayed by one year. In mitigation cost efficiencies would be sought elsewhere in the event of increasing repairs costs.

		EBITDA MRI Interest Cover					Cash flow			
Nr	**Risk description**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Peak net debt £m**	**Debt repaid**	**Cash (Year 30)**	**Mitigation**
Base Case		**0.83**	**1.10**	**1.16**	**1.24**	**1.23**	**61.1**	**26**	**34.5**	
6	Additional investment spend of £1m required over years 2-3 for new quality standard or regulations	0.83	0.83	0.91	1.22	1.22	62.4	27	30.8	The additional investment has a significant impact on interest cover in years 2 and 3 due to the effect of additional capex reducing cash surplus, and increased interest costs as a result of additional debt funding; however, EBITDA MRI does recover to >1 by year 4. Peak debt increases £1.3m and repayment is delayed by one year to year 27. Closing cash reduces by £3.7m. In mitigation any non-essential works would be delayed in order to accommodate investment priorities, and cost efficiencies would be sought within the operational cost base and new build programme.

Nr	Risk description	EBITDA MRI Interest Cover Year 1	Year 2	Year 3	Year 4	Year 5	Cash flow Peak net debt £m	Debt repaid	Cash (Year 30)	Mitigation
Base Case		**0.83**	**1.10**	**1.16**	**1.24**	**1.23**	**61.1**	**26**	**34.5**	
7	New build programme accelerated (125 units brought forward by two years)	0.83	1.05	1.12	1.24	1.32	60.2	26	36.9	Worsening of interest cover in short term due to earlier debt requirement however earlier delivery of units results in a benefit to plan over the longer term, peak debt is £0.9m lower, and closing cash is £2.4m higher. Consideration would need to be given to impact of changes in programme on overall borrower group
8	New build programme delayed, future schemes deferred by one year	0.83	1.10	1.16	1.31	1.25	60.4	26	32.7	Reduction in debt in short term results in improvement in interest cover. Over the longer term closing cash is reduced by £1.8m due to delay in receipt of rental income. Impact could be mitigated by procurement and efficiency savings and performance management.

Loretto Housing

Business Plan: Financial Projections – 2020/21

1. Headlines

Loretto have completed 56 social rent new build properties during 2019/20, and are projected to invest over £1.9m in existing homes.

The 2020/21 updated financial projections include:

- Provision to build 176 new social rented homes over the next five years
- A further £8.4m of investment in existing housing stock
- Contribution of £370k to the Group’s IT investment, helping to make our operating practices more efficient
- £0.3m in donations to the Wheatley Foundation

Throughout the five year period presented Loretto’s development programme is on-going which means the statutory surplus, net assets and interest cover reported are all low (although increasing over the period) and there is a net cash outflow each year (before debt finance).

Loretto’s peak net debt is in 2026/27 (year 7) and finance costs on the debt borrowed from Wheatley Funding No 1 Limited (“WFL1”) steadily increase over the five years. This is in advance of the significant benefit from increased rental and lease income and lowers the statutory surpluses reported.

It is important to note that rent increases in line with those assumed in our strategy, and continued control of costs are an important aspect of managing the financial position.

2. Key assumptions

The key financial assumptions in the 2020/21 Business Plan are highlighted below. All figures include VAT, where applicable but not inflation (unless stated otherwise).

2.1 Stock

a) Stock numbers

Opening stock numbers in the plan reflect the actual stock reported in the statutory accounts as at 31 March 2019, updated for developments completed during 2019/20 (56 units- see table 2 for a breakdown). The financial projections assume that as at 31 March 2020 Loretto HA will own or manage 1,514 properties as shown in Table 1 below. The opening stock number includes 50 units which are managed by Loretto HA on behalf of other providers.

Table 1 – Split of stock by type

Unit Type	Units
General Needs and Supported	1,493
Shared Ownership	4
Total (Social)	1,497
Mid-Market Rent	17
Total	1,514

b) Stock Profile

Loretto's Strategic Plan for 2015-2020 aimed to grow its housing stock by 459 properties (384 Social and 75 MMR). At 31 March 2020 a total of 321 units (304 Social and 17 MMR) will have been achieved. The 17 MMR units at Barclay Street are managed under a lease arrangement with Lowther Homes with the letting and management risk being taken by Lowther. On-going capital works costs will remain for responsibility of Loretto and these costs are contained within the business plan assumptions moving forward. The projections contain no provision for further MMR units. Table 2 outlines the developments and the year of completion.

Table 2 – Units completed

Year	Developments	Units
2015/16	Glenburn Rd, Mosspark Boulevard	47
2016/17	Eriboll St	55
2017/18	Barclay St Phases 1 and 2	77
2018/19	Shawbridge, Wallacewell Quadrant,	86
2019/20	Muiryhall St, Buckley St	56
At 31.3.20		**321**

c) <u>Stock profile – new build completions</u>
The 2020/21 projections assume a further 176 social rent units can be delivered over the period of the new five year strategy; '*Inspiring Ambition, Unleashing Potential*'.

The Loretto new build pipeline considers where new opportunities may emerge, driven by local authority housing strategy and the Strategic Housing Investment Programme that flows from it.

Whilst the plan continues to focus on Glasgow and surrounding areas, over half of the new build allocation (93 units) is planned to be in Renfrewshire, increasing housing supply, and our presence in this area.

Table 3 below shows the planned profile of social housing stock (excluding shared ownership units) over the period of the projections. Note that the projections contain no provision for further MMR units.

Table 3 – Housing Stock Numbers (ex SO & managed)

	2020/21	2021/22	2022/23	2023/24	2024/25
Opening Stock	**1,460**	**1,460**	**1,550**	**1,606**	**1,636**
New Build	0	90	56	30	0
Closing Stock	**1,460**	**1,550**	**1,606**	**1,636**	**1,636**

2.2 Income

a) Rent and Service Charge Income

The plan assumes an average weekly rent based on the current average rent and, subject to Board approval, a 3.4% rent increase in April 2020. In addition to rental income Loretto also receives income from service charges. Based on current charges the income received is forecast to be £979k per annum (net of amounts transferred to Loretto Care), with supported accommodation service charges being significantly higher than general needs. Table 4 shows the rent and service charge growth assumptions over the next five years.

Table 4 – Rent and service charge increase assumptions

Rent Increase	2020/21	2021/22	2022/23	2023/24	2024/25
Increase %	3.4	3.5	3.5	3.5	3.5

b) Other Income

In addition to rental and service charge income Loretto generates significant income from a number of other sources.

Income Type	Service Description
MMR Lease Income	Lease income from Lowther Homes for the development at Barclay Street is £74k per annum.
Loretto Care Management Fee	£209k management fee income for the provision of corporate services to Loretto Care. The fee is assumed to increase annually in line with inflation.

2.3 Cost Inflation Assumptions

Inflation during 2019/20 continued on a downwards trend, and in December 2019 RPI was reported at 2.2%, with CPI at 1.3%, a reflection of weakening demand from households in their discretionary spending, a result of a number of uncertainties across the wider UK economy. However, markets are expecting inflation to rise in 2020/21 and we have held our expectation for cost inflation to move upwards to 3% retaining an element of prudence in our forecasts.

Table 5 – Inflation assumptions

General Inflation Assumptions	2020/21	2021/22	2022/23	2023/24	2024/25
General cost inflation	0%	3.00%	3.00%	3.00%	3.00%
Wage inflation	0%	2.2%	2.2%	2.2%	2.2%

2.4 Operating performance

The percentage of rent lost to voids and bad debts has been based on historical performance together with our performance expectations going forward. The high rate of voids for our supported housing properties reflects the specialist nature of this stock and the need to work in partnership with local authorities to fill void properties, rather than referring to an established waiting list.

Table 6 shows the assumptions in the plan for the next five years.

Table 6 – Void, bad debt and arrears assumptions

Performance Assumptions	2020/21	2021/22	2022/23	2023/24	2024/25
Routine voids (%) – General Needs	1.3	1.3	1.3	1.3	1.3
Routine voids (%) – Supported	7	7	7	7	7
Bad debts (%) – General Needs	3.0	3.0	3.0	3.0	3.0
Bad debts (%) – Supported	2.0	2.0	2.0	2.0	2.0
Arrears (£'000)	245	283	324	303	278

The plan assumes voids remain at a constant % of rental income. Current year to date performance overall is 1.45%, versus the overall % of 3.16% in the business plan, therefore our assumptions are prudent compared to historical rates.

Business plan assumptions on the movement in arrears as a result of Universal Credit have been updated to reflect our experience and expectations going forward including:

- Increase in the number of tenants moving to universal credit (a total of 610 tenants – all tenants of working age)
- 80% of tenants who move to universal credit will have an increase in arrears, with this increase equivalent to 5 weeks rent; and
- Of this increased arrears balance it is assumed only 40% will be recovered which will take up to two years.

2.5 Management costs

Loretto's employee cost assumptions reflect Loretto's direct staff structure. Additionally, Loretto pays an appropriate share of the salaries of investment, NET's and Wheatley 360 staff. Improved working practices will ensure the growing asset base can be managed within the existing staff complement, as reflected in the static staff cost in the table below.

Running costs, which include day to day expenditure but exclude Initiatives, are assumed to increase by 5.0% over five years. This additional cost is due to the 176 new social rent units delivered through the development programme.

The plan assumes recharges from Group, which includes employee and running costs for central services such as Human Resources, IT, Finance, Regeneration and the Transactional Hub, to reduce by 3.6% over the next five years. This reflects further efficiency savings resulting from investment in back office services. Table 7 sets out the overall management costs are assumed in the plan.

Table 7 – management cost assumptions (excluding inflation)

Management Costs	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Employee costs	876	875	875	860	860
Pension deficit contribution	463	477	0	0	0
Running costs	592	592	634	618	622
Recharges from Group	441	428	425	425	425
Total	**2,371**	**2,372**	**1,934**	**1,903**	**1,907**

The savings noted above are required in order to be able to re-invest in our business and grow our asset base.

2.6 Initiatives and Other Provisions

a) Initiatives
The projections also include provision for various initiatives which are available to tenants.

The largest of those is our contribution to the Wheatley Foundation of £77k per annum over the next 3 years, before decreasing to £54k from year 4 onwards. The Wheatley Foundation is a charitable trust established with the aim of delivering community benefits.

Other initiatives include the tenancy support service (“TSS”), to help our tenants who are struggling to sustain their tenancy due to underlying mental health or other personal challenges. Our net contribution to TSS is £36k a year.

The Helping Hands Fund continues in 2020/21, providing support to those customers experiencing severe hardship; the contribution to this is £33k next year.

These provisions are considered to be an investment in creating strong and sustainable communities and providing better opportunities for our tenants. It is anticipated that this will contribute to the sustainability of the income stream for Loretto over the long term.

Loretto's share of the contribution to these initiatives over the next five years is summarised in the below table.

Table 8 – Initiatives

Other Group Recharges	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Share of Group Initiatives	146	122	120	92	90

b) Other Provisions

In order to continue to deliver service development and improvement, the projections include a provision of £370k over the next five years. This represents Loretto's share of the Group capital IT investment programme, and includes, increasing the number of online services offered and direct video calling for customers to our transactional hub.

2.7 Asset management and growth

a) Repair Costs

The financial projections assume efficiency savings in repairs and maintenance expenditure through improved working practices and closer collaboration with City Building. This is assumed to result in a 4.4% decrease to the average repairs and maintenance cost per unit over the period of the five year projections. Table 9 summarises the revenue repairs and maintenance assumptions.

Table 9 – Planned and Routine Maintenance costs (excluding inflation)

Repairs	2020/21	2021/22	2022/23	2023/24	2024/25
Routine Repairs £000	827	834	905	923	932
Planned Maintenance £000	561	559	558	556	555
Total	**1,388**	**1,393**	**1,463**	**1,480**	**1,487**
Average Cost per Unit £	£951	£926	£927	£913	£909

b) Capital Investment

Loretto's existing stock fully meets the Scottish Housing Quality Standard ("SHQS") and has benefitted from a programme of fire safety works in the last two years. The current Strategic Plan, '*Investing in our Futures*' included investment of £8m in existing properties over the five years 2015-20. By the end of the financial year 2019/20 it is projected that £9m will have been invested in existing stock. Over the period of the new five year strategy *'Inspiring Ambition, Unleashing Potential'* this investment will continue with a further £8.4m planned investment in existing stock.

This is possible due to increased operational efficiencies in management costs and repairs and maintenance expenditure, and access to borrowing via the Group.

Table 10 summarises the capital investment programme for the next five years. Within the core programme (excluding capitalised repairs, and compliance works) 6% (£230k) has been allocated to local priorities with spending decisions made in consultation with and led by our customers.

Table 10 – Capital investment programme (excluding inflation)

Capital Investment	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Core Programme (including capitalised repairs)	1,210	1,087	1,656	979	946	5,877
Void Repairs	207	195	195	195	195	985
Other	239	237	235	233	231	1,175
Medical Adaptations	72	72	72	72	72	361
Total	**1,727**	**1,590**	**2,157**	**1,478**	**1,445**	**8,397**

c) New Build Programme

The new build programme is set out in Section 1.1 with 176 new social housing units due to be delivered over the next five years. One of the key themes in the 2020-2025 strategy is 'changing lives and communities', and as part of this developing over 3,000 new homes. The projections include Loretto's share of this new build provision. Table 11 outlines the investment in new build homes over the next five years.

Table 11 – New build funding profile (including inflation)

New Build Programme	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Development Costs	10,810	11,351	3,468	1,389	3,489	30,507
Grant Income (cash received)	8,817	3,558	1,149	717	1,510	15,751
Net Cost	**1,993**	**7,793**	**2,319**	**672**	**1,979**	**14,756**
Completions	0	90	56	30	0	176

2.8 Operating Cost per Unit

As a result of the assumed efficiencies in management costs and repairs and maintenance, our operating costs per unit, excluding depreciation and finance costs, decrease over the five year period and are set out in Table 12 below.

Table 12 – Projected operating cost per unit (excluding inflation)

Operating Costs	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Operating Costs	3,905	3,888	3,516	3,474	3,484
Average No. of Units in year	1,460	1,505	1,578	1,621	1,636
Operating Cost per Unit (£)	£2,675	£2,583	£2,228	£2,143	£2,130

This represents a 20% saving to the operating cost base over the five year period. Efficiency savings will also arise due to continuing investment in service transformation, including the introduction of self-service and automated services.

2.9 Interest Rate assumptions

The new build programme planned requires debt finance to be drawn down over time. In line with the wider Group funding strategy, borrowing is advanced from Wheatley Funding No 1 Limited ("WFL1") at an assumed blended all in average funding rate of 5.25%. The blended funding rate reflects a combination of bank and bond funding, any fixed rate arrangements in place and any monitoring or commitment fees payable by WFL1 to external funders and is consistent across all Group subsidiaries.

Table 13 – Interest rate assumptions

Interest	2020/21	2021/22	2022/23	2023/24	2024/25
Interest Payable (Group Funding)	5.25%	5.35%	5.35%	5.35%	5.35%
Interest Receivable	0.50%	0.75%	1.00%	1.50%	1.50%

3. Financial projections – next 5 years

3.1 Statement of Comprehensive Income

Table 14 – Statement of Comprehensive Income

Statement of Comprehensive Income	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Net Rental Income	7,165	7,504	8,383	8,847	9,192
Other Income (including MMR lease income)	283	291	299	307	315
Grant Income	72	7,137	4,411	2,467	81
Total Income	**7,520**	**14,931**	**13,093**	**11,621**	**9,589**
Management Costs	(2,517)	(2,544)	(2,156)	(2,148)	(2,205)
Repair and Maintenance Costs	(1,388)	(1,435)	(1,552)	(1,617)	(1,674)
Bad Debt	(221)	(229)	(240)	(250)	(258)
Depreciation	(3,701)	(3,857)	(4,468)	(4,696)	(4,744)
Operating Expenditure	**(7,827)**	**(8,065)**	**(8,416)**	**(8,711)**	**(8,881)**
Investment Property Valuation Movement	23	24	24	25	25
Operating Surplus	**(283)**	**6,890**	**4,702**	**2,936**	**734**
Operating Margin (%)	**(4%)**	**46%**	**36%**	**25%**	**8%**
Finance Costs	(1,978)	(2,072)	(2,562)	(2,685)	(2,684)
Housing Property Valuation Movement	2,530	(8,668)	642	891	4,263
Statutory Surplus/(Deficit)	**269**	**(3,851)**	**2,781**	**1,142**	**2,313**

Rental income
Investment in the new build program and assumed rental increases will generate 28.2% growth in rental income over the next 5 years.

Grant income
In line with SORP 2014, the projected Statement of Comprehensive Income shows recognition of grant income upon completion of the properties. The result of this is operating margin increasing or decreasing in line with the level of grant income. Depreciation will increase in line with an increased asset base.

Investment Property Valuation Movement
Mid-market properties are held on the Statement of Financial Position as Investment Properties. These properties are valued annually, with any increase or decrease in valuation recognised within the Statement of Comprehensive Income.

Expenditure
The planned asset growth, improved working practices and closer collaboration with our service providers over the next 5 years will result in efficiency savings that achieve a 20% reduction in operating cost per unit.

Finance Costs
Interest payable on our borrowings increases over the five years as debt increases, to fund the new build programme.

Housing Property Valuation Movement
Social rent properties are held on the balance sheet at valuation. These properties are valued annually, with any increase or decrease in valuation recognised within the Income & Expenditure account, below the operating surplus line.

Statutory Surplus/ (Deficit)
The completion of new units has a significant impact on the reported statutory surplus/(deficit). Recognition of grant income in relation to completed units increases the reported operating surplus; however, this is offset by a downward valuation of housing properties in the year of completion. Under SORP 2014 new build grants are not taken into account when calculating valuation movements. In general, the gross development cost, i.e. excluding grant, of these newly completed properties will be higher than the EUV-SH valuation and results in a downward valuation. We have adopted a highly conservative approach to valuation adjustments in the projections and the downward valuation adjustments presented are worst case scenario.

b) Statement of Financial Position

Table 15 – Statement of Financial Position

Statement of Financial Position	2020/21	2021/22	2022/23	2023/24	2024/25
Housing & Investment Properties	69,451	70,475	72,741	72,251	77,109
Other Fixed Assets	1,060	902	747	587	514
Total Fixed Assets	70,511	71,377	73,488	72,838	77,622
Current Assets	1,285	1,324	1,365	1,343	1,319
Current Liabilities	(11,255)	(7,748)	(4,562)	(2,890)	(4,400)
Net Current Liabilities	(9,969)	(6,424)	(3,197)	(1,547)	(3,081)
Long-Term Liabilities	(42,354)	(50,616)	(53,173)	(53,031)	(53,969)
Net Assets	**18,187**	**14,337**	**17,118**	**18,259**	**20,572**
Retained Earnings	18,187	14,336	17,118	18,259	20,572
Total Reserves	**18,187**	**14,336**	**17,118**	**18,259**	**20,572**

Housing Assets
The plan assumes Housing Property assets to increase £19.4m over five years due to the construction of 176 additional properties and an assumed increase in the value of our existing stock as a result of investment.

Other Assets
This includes Lipton House. The decrease in asset value is due to annual depreciation costs. No significant additions are planned to other fixed assets.

Current Assets
Current assets include cash, rent arrears, net of bad debt provision; and other debtors, such as office rent and insurance prepayments. The table shows current assets remaining fairly static across the five years, due to matching debt drawdowns with cash requirements.

Current Liabilities

Current liabilities are high throughout the five year period due to the deferral of new build grant income received until the relevant scheme is complete. Deferred grant income is a liability.

Long-Term Liabilities

Long-term liabilities relate to the loan due from Loretto HA to Wheatley Funding Limited 1 (“WFL1”), pension liability and long term other deferred income. The net balance due to WFL1 increases from £37.4m at March 2020 to £51.6m at March 2025, funding new build development. Peak net debt is in year 7 (2026/27) and is £53.9m.

Retained Earnings

The increase to reserves reflect the performance over the five year period, as well as property valuation movements. These are projected to increase £2.6m by 2024/25.

c) Statement of Cash Flow

Table 16- Statement of Cash Flow

Cash Flow	2020/21	2021/22	2022/23	2023/24	2024/25
Net Rental Income	8,607	8,970	9,872	10,425	10,799
Operating Expenditure	(5,250)	(5,350)	(5,102)	(5,186)	(5,323)
Net Cash from Operating Activities	**3,357**	**3,620**	**4,769**	**5,239**	**5,476**
Core & Other Capital Expenditure	(1,906)	(1,709)	(2,362)	(1,691)	(1,704)
New Build Expenditure	(10,810)	(11,351)	(3,468)	(1,389)	(3,489)
Grant Income	8,817	3,558	1,149	717	1,510
Net Cash used in Investing Activities	**(3,899)**	**(9,503)**	**(4,682)**	**(2,363)**	**(3,683)**
Finance Costs	(2,000)	(2,377)	(2,643)	(2,733)	(2,729)
Net Movement in Cash	**(2,542)**	**(8,260)**	**(2,555)**	**144**	**(936)**

<u>Net Cash from Operating Activities</u>
The plan assumes cash from operating activities to increase by 63% in five years. Rent increases and the completion and handover of 176 new build properties, creates additional rental and lease income; the positive movement being further assisted by the operating cost per unit decreasing 20% over the same period.

<u>Net Cash used in Investing Activities</u>
This reflects the on-going core programme and other investment works, and the new build programme.

<u>Finance Costs</u>
This reflects the interest due on our loan with Wheatley Funding No 1 Limited. As expenditure is incurred to pay for our new build programme, Loretto will use existing cash resources, followed by drawing down money from Group. The projections assume the new build programme is completed in 2026/27, while core programme expenditure continues. Peak net debt is reached in 2026/27, which is

year 7 of the plan. Beyond peak net debt year, as no further debt is expected to be drawn, the plan assumes positive movements in cash thereafter. Annual finance costs are therefore strongly linked to any increase or decrease in debt.

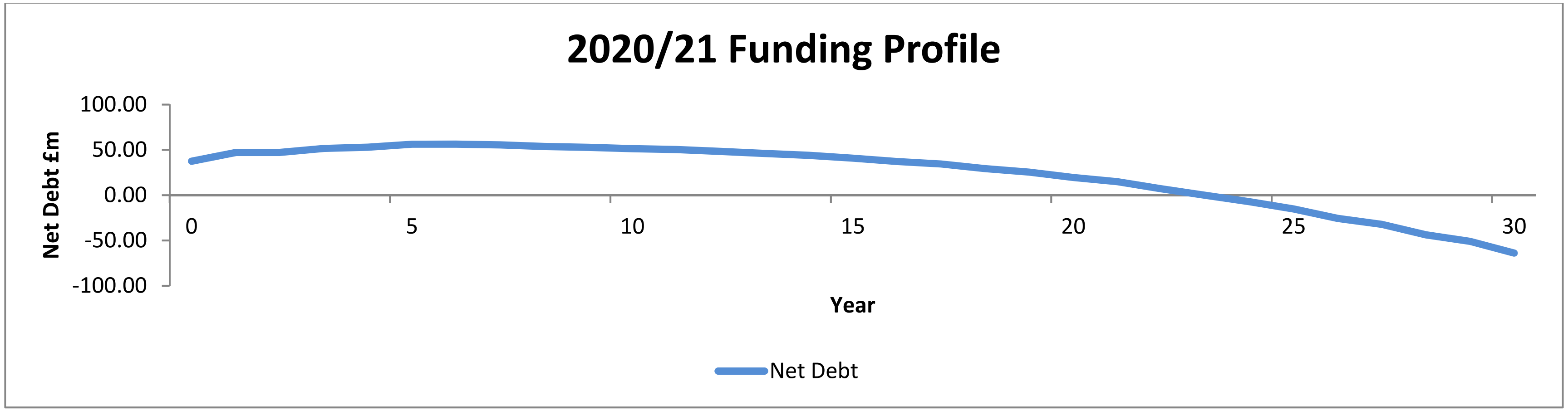
Net Movement in Cash

In the first five years of the plan we anticipate a £14.1m net decrease in cash. This is due to significant investment in our existing properties, and the new build programme, in line with our strategic objectives.

4. Funding and debt profile

4.1 Loretto can borrow from WFL1 providing it can support the debt levels with its asset base and cash flows. Loretto, together with all the other RSLs in the RSL Borrowing Group, needs to ensure that all external funding conditions at WFL1 level are met at all times, including compliance with financial covenants. Whilst there are no specific financial covenants at each RSL level it is the delivery of the approved business plan financials by each RSL that is key to meeting funding conditions at WFL1.

The resulting debt profile for Loretto is as follows:



Debt indicator	Value
Peak debt	£53.9m
Peak debt year	7
Debt repayment year	24
Cash at Year 30	£59.6m

5. Key financial parameters

5.1 Whilst covenants attached to WFL1 funding are assessed at Group level, rather than individual RSL level, there are important financial parameters which need to be met to ensure that Loretto remains financially sustainable in the long term and that its contribution to the RSL Borrowing Group, along with all the other RSLs in the group, allows WFL1 to meet its external funding conditions.

Therefore, the following criteria need to be taken into account when assessing the impact of any risks or business decisions on projections:

5.2 Operating margin generation

In the long term, underlying operating surplus (excluding grant income and property valuation movements) needs to be sufficient to service debt, i.e. meet interest and capital payments on debt balances and achieve overall financial surplus every year. The business plan assumes that Loretto will generate the following operating margins over the next 5 years:

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Income (excluding grant income and property valuation movement)	7,448	7,794	8,682	9,154	9,508
Adjusted Operating Surplus	(378)	(271)	266	443	627
Adjusted Operating Margin (%)	**(5.08%)**	**(3.47%)**	**3.07%**	**4.84%**	**6.59%**

The adjusted operating margin, which excludes grant income and valuation movements, is the measure used to test covenant compliance. It is lower than the operating margin reported in the Statement of Comprehensive income at 3.1, illustrating the significant impact that the recognition of grant income on completion of new build has on the results. The margin increases over the five years due to additional rental income generated from completed new build units, as well as efficiency savings.

5.3 Cash flow strength

Cash flows need to be sufficient to demonstrate that there is enough cash available to service intra-group debt each year and to repay funding within 30 years. A measure often used in the housing sector is Earnings before Interest, Tax, Depreciation and Amortisation, Major Repairs Included ("EBITDA MRI"). This measure removes items that are non-cash and/or unrelated to underlying operations, such as grant income and property valuation movements, to assess the funds available to meet interest payments and pay for all costs related to current stock. A ratio > 1 means that there is sufficient capacity to meet interest payments as they fall due. As the debt principal must also be repaid, long term, the interest cover ratio needs to be comfortably over 1 to demonstrate sufficient capacity to repay capital.

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
EBITDA (MRI)	1,416	1,877	2,371	3,448	3,667
Interest Expense	1,978	2,072	2,562	2,685	2,684
Interest Cover	**0.72**	**0.91**	**0.93**	**1.28**	**1.37**

The ratio is < 1 over the first three years; this is due to interest costs increasing as more debt is drawn to fund the new build programme and investment. As new build units are completed and handed over more rental income is generated which along with efficiency savings more than offsets the higher interest costs, resulting in the ratio being >1 from year 4.

Increases in rental income (as noted in paragraph 2.2) and continuing management of the cost base during this period are of extreme importance.

The long term financial projections show that debt can be repaid in year 24 of the plan with £59.6m of cash generated in year 30.

5.4 Asset cover

One of the metrics which governs overall borrowing limits is the value of the owned asset base. The Loretto investment and development programme is supported by intra-group borrowing from WFL1 which operates on a Group wide borrowing and asset security basis. Assets are typically based on the cash flows associated with these assets, business decisions, e.g. in relation to rent growth, will have an impact on asset values.

5. Risk analysis

We have performed sensitivity analysis showing the potential impact on the plan of key risk factors. As well as general risks relating to inflation and the cost base. The response and mitigation actions will be considered on a Group-wide basis by the Group Board and Audit Committee.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.72**	**0.91**	**0.93**	**1.28**	**1.37**	**£53.9m**	**24**	**£59.6m**	
1	Cost inflation decreases to 2.5% from year 3	0.72	0.91	0.93	1.29	1.37	£53.6m	23	£76.3m	As expected this has a positive impact on the Business Plan, more so in later years as the compound effect of lower than assumed inflation results in improved performance and cash flows. The year of debt repayment moves forward to year 23 and cash at year 30 increases by £16.7m
2	Rent increase reduced to 3% for duration of plan	0.72	0.89	0.90	1.24	1.31	£54.7m	26	£26.5m	EBITDA MRI cover deteriorates slightly, though still exceeds 1 by year 4. The compound effect of these lower rent increases delays debt repayment period by 2 years and decreases cash at year 30 by £33.1m. In mitigation operational costs, investment and new build would be reviewed in order to reduce the overall cost and cash requirement to within a manageable level.
3	Bad debt increases by 1%	0.68	0.86	0.89	1.24	1.32	£54.8m	25	£51.8m	The increase to bad debt causes debt repayment to be delayed by one year, with peak debt increasing £0.9m, and year 30 cash decreasing £7.8m. The monthly reporting process would identify any trend towards a deterioration of the bad debt position, allowing for time to understand the reasons and work towards resolution.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Peak net debt £k**	**Debt repaid**	**Cash (Year 30)**	
Base Case		**0.72**	**0.91**	**0.93**	**1.28**	**1.37**	**£53.9m**	**24**	**£59.6m**	
4	Employee costs increase by 2% higher per year (4.2%) in year 2.	0.72	0.89	0.92	1.27	1.35	£54.1m	24	£57.6m	Interest cover is only marginally affected, and remains on trend, being >1 by year 4. Peak debt increases by £0.2m and closing cash is reduced by £2.0m. Operational cost efficiencies would be sought elsewhere in order to mitigate any impact from increased employee costs.
5	Repairs & maintenance costs increase by £250k a year for duration of plan	0.58	0.77	0.81	1.16	1.23	£56.3m	26	£37.7m	Whilst there is a reduction to EBITDA MRI, the main impact is on peak debt (increasing £2.5m) and closing cash (decreasing £22m), with debt repayment being delayed by two years. In mitigation cost efficiencies would be sought elsewhere in the event of increasing management costs.
6	The introduction of a new housing standard requires additional capital investment of £1m over the course of years 1 and 2	0.45	0.62	0.89	1.24	1.32	£55.4m	24	£55.8m	The additional investment has a significant impact on interest cover in years 1 and 2 due to the effect of additional capex reducing cash surplus, and increased interest costs as a result of additional debt funding; however, this is still on trend being >1 by year 4. Peak debt increases £1.5m, though we are still on track to repay by year 24. Closing cash reduces by £3.8m. In mitigation any non-essential works would be delayed in order to accommodate investment priorities, and cost efficiencies would be sought within the operational cost base and new build programme.

Nr	Risk description	EBITDA MRI Interest Cover					Cash flow			Mitigation
		Year 1	Year 2	Year 3	Year 4	Year 5	Peak net debt £k	Debt repaid	Cash (Year 30)	
Base Case		**0.72**	**0.91**	**0.93**	**1.28**	**1.37**	**£53.9m**	**24**	**£59.6m**	
7	New Build schemes are all delayed by 3 months	0.71	0.94	0.95	1.30	1.36	£54.1m	24	£59m	This has the effect of delaying the net operating surplus generated by new build units; costs of finance increase due to debt being held for longer than anticipated and the organisation is also potentially exposed to inflated costs brought about by the delay. Overall peak debt increases by £0.2m and cash at year 30 decreases by £0.6m. Whilst Loretto can absorb these impacts, the development team would endeavour to reduce the impact of this through contract negotiation and planning forward for known issues.
8	A major house builder goes into administration affecting almost a third of Loretto's new build programme. This causes a 6 month delay to completions and increases costs by 20%	0.72	0.90	0.98	1.22	1.29	£56.3m	25	£53.3m	Interest cover increases in year 3 due to the delay to the scheme, meaning less debt has been drawn. This subsequently decreases in years 4 and 5 due to the additional debt requirement to complete the scheme, increasing interest costs. The delayed handover of completed units also means rent is not being generated until later. Peak debt increases by £2.4m, and closing cash decreases by £6.3m. In mitigation we would expect that this would be picked up by our monthly monitoring of contract exposure, allowing time for resolution before the contractor fell into administration. We would seek to absorb any impact from this within the investment programme funding allocation, and by reducing non-essential work within the capital investment programme.

Dunedin Canmore

Business Plan: Financial Projections – 2020/21

1. Headlines

Dunedin Canmore is on track to complete 132 new social rent properties and 113 mid market rent properties in 2019/20. Further investment of £5.7m in our existing homes is also expected to be achieved.

The 2020/21 updated financial projections include:

- Addition of over 100 social rent properties expected to transfer from Barony Housing Association in April 2020;
- Provision to build 966 new social and mid-market rent homes over the first five years, with a further 606 units to be delivered in the period up to March 2028; and
- Investment of £29.5m in our existing housing stock over the five year period.

During the development period, Dunedin Canmore financial forecasts are driven by the profile of the development programme and the value of grant income and valuation adjustments on completion of new build properties. The forecast bottom line statutory surplus, net assets, cashflow and ratios reflect the higher level of borrowing to support our new build programme.

DCH's peak net debt occurs in 2026/27 and finance costs on the debt borrowed from Wheatley Funding Limited 1 steadily increase as we approach this year. This is in advance of the significant benefit from increased rental and lease income and lowers the statutory surpluses reported.

After 2027/28 and the completion of the new build programme, income increases and operating cost per unit decreases due to efficiencies achieved over a larger property base. Overall this results in a strengthening of the financial position of Dunedin Canmore.

It is important to note that rent increases in line with those assumed in our strategy, and continued control of costs are an important aspect of managing the financial position.

2. Key Assumptions

The key financial assumptions in the 2020/21 Business Plan are highlighted below. All figures include VAT, where applicable but not inflation (unless stated otherwise).

2.1 Stock Numbers

Social Housing

Opening social housing stock numbers reflect the actual stock as at 31 March 2019 adjusted for the units expected to transfer from Barony HA in April 2020 along with the projected new build completions during 2019/20. The 2020/21 projections assume an opening balance of 5,775 properties, the split of which is shown in table 1 below.

Table 1 – Opening Social Housing Stock

	General Needs	Supported Housing	Shared Ownership	Total Units
Opening Stock	5,156	273	346	5,775

Over the next 8 years of the plan it is anticipated that 1,118 new homes for social rent will be delivered as a result of our development programme, with 698 of these units expected to be delivered in the first 5 years. It is further assumed that 41 of the supported housing units which will transfer from Barony will be sold over the next two years. These properties do not allow for tenants residing in the accommodation to live independently and a disposal and re-provisioning strategy has been previously approved by the Barony Board. Table 2 below shows the profile of self-contained units for social housing (excluding shared ownership units) over the period of the projections.

Table 2 – Social Housing Stock Profile

General & Supported Housing	2020/21	2021/22	2022/23	2023/24	2024/25
Opening Stock	**5,429**	**5,403**	**5,548**	**5,721**	**5,944**
New Build	0	160	173	223	142
Sales	(26)	(15)	0	0	0
Closing Stock	**5,403**	**5,548**	**5,721**	**5,944**	**6,086**

Other Affordable Housing

In addition to social housing DCH own investment properties for mid-market rent ("MMR"). These properties will be managed under a lease arrangement with Lowther Homes with the letting and management risk being taken by Lowther. On-going capital works costs will remain Dunedin Canmore's responsibility and these costs are contained within the business plan assumptions moving forward.

Opening stock numbers reflect the actual stock as at 31 March 2019, updated for developments completed during 2019/20. The projections include the expected delivery of 454 affordable mid-market rent properties over the next 8 years, with 268 of these units expected to be delivered in the next 5 years, as shown in table 3 below.

Table 3 – Mid Market Rent Stock Profile

Mid Market Rent	2020/21	2021/22	2022/23	2023/24	2024/25
Opening Stock	**332**	**332**	**357**	**432**	**530**
New Build	0	25	75	98	70
Closing Stock	**332**	**357**	**432**	**530**	**600**

2.2 Rent and Service Charge Income

The plan assumes an average weekly rent based on the actual current average rent and, subject to Board approval, a 3.4% rent increase in April 2020. For the properties transferred from Barony HA the assumed rent increase is 2% for the first 3 years of the projections in line with the promises made to Barony tenants.

Table 4 – Rent and service charge increase assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Increase (existing DC tenants)	3.4%	3.5%	3.5%	3.5%	3.5%
Increase (Barony tenants)	2.0%	2.0%	2.0%	3.5%	3.5%

As the MMR properties are completed, income from the lease arrangement with Lowther will commence. The value of the lease will be determined on a scheme by scheme basis and income varies from £4,500 per unit to £5,200 per unit within the projections. The value of these leases have been determined so that DCH receive a sufficient return to cover the funding costs associated with them together with the cost of any capital replacements.

2.3 Other Income

Supporting People Grants
The financial projections assume DCH will receive £361k of grant income to provide support services at Dunedin Harbour. This is in line with 2019/20 and no inflationary increases have been assumed in the projections for future years.

Dunedin Canmore Property Services – Net Surplus
Income is assumed to be received from other group subsidiaries (namely West Lothian Housing Partnership and Lowther Homes) in respect of repairs and capital works carried out by Dunedin Canmore Property Services. This is offset by costs for the provision of the repairs service, namely staffing and materials, and, along with surpluses on external works, is anticipated to result in an estimated margin of £85k in 2020/21. Income is referenced to repairs and investment spend in the financial

projections. Staff costs are forecast to increase in line with salary inflation each year and material cost assumptions are linked to general cost inflation assumptions.

Other
Other income received by Dunedin Canmore Housing includes medical adaptation grant income and some minor miscellaneous income at the Harbour and Sheltered services.

Table 5 below shows the projected other income (including inflation) for the first five years of the 2020/21 Financial Projections. Over the period other rental income is expected to increase substantially primarily as a result of an increase in lease income received from Lowther Homes in respect of the mid-market rent properties.

Table 5 – Other Income (including inflation)

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Other Rental Income – MMR leases	2,358	2,536	2,696	3,318	3,925
Supporting People Grant	361	361	361	361	361
Workshop Net Surplus	85	87	90	92	95
Other Income	172	176	181	186	191
Total	**2,975**	**3,160**	**3,328**	**3,958**	**4,573**

2.4 Inflation Assumptions

Inflation during 2019/20 continued on a downward trend, and in December 2019 RPI was reported at 2.2%, with CPI at 1.3%, a reflection of weakening demand from households in their discretionary spending as a result of a number of uncertainties across the wider UK economy. However markets are expecting inflation to rise in 2020/21 and we have held our expectation for cost inflation to move upwards to 3% retaining an element of prudence in our forecasts. The general cost inflation rates assumed within the financial projections are shown in the table below:

Table 6 – Inflation Assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Cost Inflation	3.00%	3.00%	3.00%	3.00%	3.00%

2.5 Operating Performance

The percentage of rent lost to voids and bad debts assumed has been based on historical performance of general needs housing together with our expectations going forward. Table 7 below shows the assumptions in the plan for the next five years.

Table 7 – Void, Bad Debt, and Arrears Assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Routine voids (%) (DC)	1.0%	1.0%	1.0%	1.0%	1.0%
Bad debts (%) (DC)	1.1%	1.1%	1.1%	1.1%	1.1%
Arrears (£'000)	1,290	1,457	1,507	1,408	1,353

The plan assumes voids to remain constant at 1.0% of rental income. This compares with an actual year to date performance in 2019/20 of 0.86% and therefore is a prudent assumption compared to historical rates. For tenants transferring from Barony HA the assumption is for 3% voids. Again this is higher than the current year to date performance for Barony of 1.9% and takes account of the specific service provision in supported properties.

The bad debts assumption of 1.1% (1% for Barony tenants) is also higher than current performance and allows for an increase in recognition of the potential impact of Welfare Reform and the introduction of Universal Credit. This has been set cautiously in recognition of the increasing impact of welfare reform on our tenants. Our Business Plan assumptions on movements in arrears as a result of universal credit have been updated to reflect our experience and expectations going forward including:-

- Increase in number of tenants moving to universal credit (a total of 2,400 tenants – all tenants of working age)

- 80% of tenants who move on to universal credit will have an increase in arrears, with this increase equivalent to 5 weeks rent; and
- Of this increased arrears balance it is assumed only 40% will be recovered with this recovery taking up to two years.

2.6 Management Costs

Employee and running costs within the financial projections reflect the changes in structure, and cost efficiency savings, made during the past few years.

Continuing to assess and improve our working practices will ensure the growing asset base can be managed within our current staff complement. The projections assume SHAPS pension deficit contributions will cease in 2021/22.

Underlying running costs are assumed to decrease by 6% up to 2022/23 reflecting efficiency savings targets built into the plan. An additional cost allowance has been made in the projections to provide for the management costs of additional units delivered through the new build programme in all years.

Charges from Group in respect of central and support services such as Finance, IT, HR and procurement are assumed to be £2,751k in 2020/21. This is proposed to decrease in future years, linked to staff and running cost efficiency savings being achieved.

The table below shows the revised profile of staffing, running costs and Group Recharges (excluding inflation and pay uplifts).

Table 8 – Management costs (excluding inflation)

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Employee Costs	3,723	3,723	3,723	3,723	3,723
SHAPS Pension Contribution	783	783	-	-	-
Running Costs	3,595	3,470	3,384	3,463	3,531
Group Recharges	2,751	2,679	2,660	2,660	2,659
Total	**10,852**	**10,655**	**9,767**	**9,846**	**9,914**

2.7 Asset Management and Growth

a) Repairs & Maintenance

The repairs service continues to be a high priority for our customers. The majority of repairs and maintenance services to Dunedin Canmore Housing are carried out in-house by Dunedin Canmore Property Services (”DCPS”).

Routine and planned maintenance costs are assumed to be £2,550k and £1,693k respectively in 2020/21. As new build properties are completed, additional budget is provided for the repair and maintenance of these properties. This is reflected in table 9 below, with routine maintenance increasing annually. Over the five year period the average repair cost per unit (excluding inflation) is expected to decrease to £742.

Table 9 – Routine and Planned Maintenance Costs (excluding inflation)

Repairs	2020/21	2021/22	2022/23	2023/24	2024/25
	£’000	£’000	£’000	£’000	£’000
Routine Maintenance	2,550	2,581	2,610	2,700	2,769
Planned Maintenance	1,693	1,693	1,693	1,693	1,693
Total	**4,243**	**4,274**	**4,303**	**4,394**	**4,462**
Average No. of Units	5,416	5,476	5,635	5,833	6,015
Average Repair cost per unit (£)	**783**	**781**	**764**	**753**	**742**

*Note – additional repair budget for new build units is allocated solely to Routine Maintenance in the table above. When new build units complete and annual budgets are set, an element of this additional budget will be re-allocated to Planned Maintenance.

b) Capital Investment

In previous years DCH has completed a major programme of investment, ensuring all properties met SHQS. These projections support our commitment to provide quality homes for rent and maximise customer satisfaction. The projections also reflect the commitments made to transferring Barony tenants to deliver additional investment in their properties.

The table below shows assumed capital spend over the next five years, and include inflation.

Table 10 – Investment assumed in existing stock (including inflation)

Capital Programme	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Core Programme	4,516	4,930	5,009	5,106	5,324
Void Repairs	708	729	751	773	797
Medical Adaptations	163	168	173	178	184
Total	**5,387**	**5,828**	**5,933**	**6,058**	**6,304**

c) New Build Programme

The new build programme is set out at Section 2.1 and reports 1,572 new units (1,118 for social rent and 454 for mid-market rent), of which 966 are anticipated to be completed within the next five years. Table 11 summarises the investment in new build homes over the next five years.

Table 11 – Development Programme cost and grant (including inflation)

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Social Housing					
Development Costs	19,574	33,027	40,700	19,330	21,992
Grant Income	13,577	24,448	16,502	6,240	12,436
Net Cost	**5,997**	**8,579**	**24,198**	**13,090**	**9,556**
Units Completed	0	160	173	223	142
Mid Market Rent					
Development Costs	4,003	12,743	17,089	7,225	10,481
Grant Income	1,558	9,236	1,531	1,614	5,341
Net Cost	**2,445**	**3,508**	**15,558**	**5,611**	**5,140**
Units Completed	0	25	75	98	70

2.8 Initiatives and Other Provisions

a) Initiatives

The projections also include provision for various initiatives which are available to tenants.

The largest of those is our contribution to the Wheatley Foundation of £244k per annum. Of this donation £166k relates to the provision of welfare benefit advice. The Wheatley Foundation is a charitable trust established with the aim of delivering community benefits.

Other initiatives include the tenancy support service (“TSS”), provided by colleagues from Loretto Care, to help our tenants who are struggling to sustain their tenancy due to underlying mental health or other personal challenges. Our contribution to TSS is £89k a year.

The plan includes Helping Hand funding of £50k in year 1 of the plan. This funding helps those in financial difficulty, particularly those who are in and out of jobs or whose benefits may change as a result of universal credit.

In addition, all tenants can talk with a Welfare Benefits or Fuel Advisor for support in managing their money and bills. The aim of these initiatives is to help our tenants sustain their tenancy, and to maintain our sector leading performance in tenancy sustainment for more than a year.

These provisions are considered to be an investment in creating strong and sustainable communities and providing better opportunities for our tenants. It is anticipated that this will contribute to the sustainability of the income stream for Dunedin Canmore over the long term.

2.9 Operating Cost Per Unit

As a result of the assumed efficiencies in management costs, our operating costs per unit, excluding depreciation and finance costs, decrease over the five year period and are set out in Table 12 below.

Table 12 – Operating cost per unit (excluding depreciation and inflation)

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£’000	**£’000**	**£’000**	**£’000**	**£’000**
Operating Costs (£'000) (Excl Depreciation)	15,385	15,179	14,283	14,419	14,520
Average No. of Units in Year	5,416	5,476	5,635	5,833	6,015
Operating Cost per Unit (£) (Excl Depreciation)	**2,841**	**2,772**	**2,535**	**2,472**	**2,414**

The financial projections assume an operating cost per unit of £2,841 in 2020/21, reducing by 15.0% to £2,414 in 2024/25. The trend shows that the plan assumes DCH will become more efficient in its use of resources as it manages more units added through planned asset growth. Efficiency savings will also arise with continuing investment in service transformation, including self-service and automated services delivered in conjunction with Wheatley Solutions.

2.10 Interest Rate Assumptions

The new build programme planned requires debt finance to be drawn down over time. In line with the wider Group funding strategy, borrowing is advanced from Wheatley Funding Limited 1 (“WFL1”) at an assumed blended “all in” average funding rate of 5.25% in 2020/21 and 5.35% thereafter. The blended funding rate reflects a combination of bank and bond funding, any fixed rate arrangements in place and any monitoring or commitment fees payable by WFL1 to external funders and is consistent across all Group subsidiaries.

The interest rate receivable on cash balances has also been revised to reflect current market expectations as shown.

Table 13 – Interest Rate Assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Interest Payable (Group Funding)	5.25%	5.35%	5.35%	5.35%	5.35%
Interest Receivable	0.50%	0.75%	1.00%	1.50%	1.50%

3. Financial projections

a) Statement of Comprehensive Income

Table 14 – Income and Expenditure Projections

Statement of comprehensive income	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Net Rental Income	29,668	31,020	32,760	35,183	37,368
Other Income	2,975	3,160	3,328	3,958	4,573
Grant Income (HAG)	0	12,958	17,180	22,566	14,914
Total Income	**32,643**	**47,139**	**53,269**	**61,707**	**56,855**
Management and Service Costs	10,852	10,932	10,275	10,624	10,974
Repair and Maintenance Costs	4,243	4,402	4,565	4,801	5,022
Bad Debts	290	300	313	331	347
Depreciation	7,801	8,035	8,891	10,128	11,436
Operating Expenditure	**23,186**	**23,669**	**24,044**	**25,885**	**27,779**
Gain/Loss on Investment Properties	(2,326)	1,074	(1,308)	(5,801)	(1,268)
Operating Surplus	**7,132**	**24,543**	**27,916**	**30,022**	**27,808**
Operating Margin (%)	***22%***	***52%***	***52%***	***49%***	***49%***
Finance Costs	(7,879)	(8,234)	(8,643)	(9,873)	(10,874)
Valuation Adjustments	7,440	(3,580)	(10,681)	(12,096)	315
Gain/ (loss) on sale of property	1,060	8	0	0	0
Statutory Surplus/(Deficit)	**7,753**	**12,737**	**8,592**	**8,053**	**17,249**

Rental income
Investment in the new build program & assumed rental increases will generate 26% growth in rental income over the next 5 years. Net rental income includes service charge income which is received in relation to a number of services provided to tenants including heating, stair-lighting, gardening, support services and equipment.

Grant income
In line with SORP 2014, grant income received in respect of new build developments is recognised on completion of the units. The result of this is operating margin increasing or decreasing in line with the level of grant income.

Expenditure
Operating expenditure is forecast to increase by £4.6m over the five year period. This is due to a number of factors, including additional management and repair costs linked to the additional stock, inflation, and higher depreciation charges linked to investment in new and existing housing stock. This increase is lower than the anticipated growth in income, as efficiencies generated from Group and changes in how staff deliver our services is expected to reduce the average operating cost per unit, excluding depreciation and inflation by 15% over the 5 years of the projections from £2,841 in 2020/21 to £2,414 in 2024/25.

Finance Costs
Funding costs reflect the costs associated with group funding arrangements and increase over the period due to the additional borrowing required to fund the new build programme.

Valuation Adjustments
Both social rent and mid-market rent properties are held on the Statement of Financial Position at value. Valuations are carried out annually with any increase or decrease recognised within the Statement of Comprehensive Income. As mid-market rent properties are classified as investment properties, movement in the value of these properties is included in operating surplus.

Statutory Surplus
The completion of new units has a significant impact on the reported statutory surplus. Recognition of grant income in relation to completed units increases the reported operating surplus; however, this is offset by a downward valuation of housing properties in the year of completion. Under SORP 2014 new build grants are not taken into account when calculating valuation movements. In general, the gross development cost, i.e. excluding grant, of these newly completed properties will be higher than the EUV-SH valuation and results in a downward valuation. We have adopted a highly conservative approach to valuation adjustments in the projections and the downward valuation adjustments presented are worst case scenario.

b) Statement of Financial Position

Table 15 – Statement of Financial Position

Statement of financial position	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Housing Assets	340,376	368,231	396,929	401,913	420,684
Other Fixed Assets	6,397	6,388	6,309	6,212	6,106
Investment Properties	34,585	48,482	64,872	66,937	76,488
Total Fixed Assets	**381,359**	**423,101**	**468,109**	**475,062**	**503,277**
Current Assets	6,366	6,534	6,584	6,484	6,429
Current Liabilities	(25,750)	(46,578)	(47,493)	(32,781)	(35,686)
Net Current Assets	**(19,384)**	**(40,045)**	**(40,909)**	**(26,297)**	**(29,257)**
Long-Term Liabilities	(171,876)	(180,219)	(215,771)	(229,283)	(237,289)
Net Assets	**190,100**	**202,837**	**211,430**	**219,482**	**236,731**
Retained Earnings	190,100	202,837	211,430	219,482	236,731
Total Reserves	**190,100**	**202,837**	**211,430**	**219,482**	**236,731**

Housing Assets

Housing and Investment properties have been adjusted to reflect annual valuation movements. Properties are reported at cost within the Balance Sheet during construction and at value once complete. Over the five year period, the value of housing and investment properties is expected to increase by 20.5%, due primarily to the construction of new build properties.

Other Assets
The value of our other assets, which include improvements to our office and environmental equipment purchases, are projected to remain broadly static across the next five years as depreciation charges increase relative to additions.

Current Assets
Other current assets include cash, rent arrears, net of bad debt provision and other debtors, such as insurance prepayments. The movement across the five years is linked to provisions in place for rent arrears linked to the introduction of Universal Credit.

Cash is expected to remain relatively constant during the years of construction activity. This is because funding will be drawn down as construction work proceeds. Once the new build programme is complete, we anticipate cash levels to increase to allow for further development or for capital repayments to commence.

Current Liabilities
Grant income associated with new build properties is held as a current liability until completion at which point it transfers to income. The movement in current liabilities over the period is therefore due to completion of new build schemes.

Long-Term Liabilities
Long-term liabilities predominantly relate to the loans due from DCH to Wheatley Funding Limited 1 (“WFL1”), THFC, and Allia. The balance due to WFL1 peaks in year 7. Long term liabilities also include a pension liability of £2.4m.

Retained Earnings
Retained earnings increase over the period as a result of surpluses generated each year.

c) Cashflow

Table 16 – Cashflow Projections

Cashflow	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Net rental income	34,392	35,993	38,073	41,328	44,141
Operating Expenditure	(17,309)	(17,614)	(17,188)	(17,844)	(18,487)
Net Cash from Operating Activities	**17,084**	**18,379**	**20,886**	**23,484**	**25,654**
Core and other Capital Expenditure	(6,135)	(6,678)	(6,802)	(6,941)	(7,206)
New Build Expenditure	(23,577)	(45,770)	(57,789)	(26,555)	(32,473)
Proceeds from sale of property	2,560	580	0	0	0
Grant income	15,135	33,684	18,033	7,855	17,777
Net cash used in investing activities	**(12,017)**	**(18,184)**	**(46,558)**	**(25,641)**	**(21,902)**
Finance costs	(7,498)	(8,006)	(9,332)	(10,793)	(11,179)
Net movement in cash	**(2,431)**	**(7,811)**	**(35,005)**	**(12,949)**	**(7,427)**

<u>Net Cash from Operating Activities</u>
Cash from operating activities shows a steady increase over the period as a result of additional income from new build properties and a reduction in costs due to efficiency savings.

<u>Net Cash used in Investing Activities</u>
This reflects the on-going core programme and other investment works, and the new build programme which varies in line with the new build programme.

Finance Costs

Finance costs relate to the interest due on our loans with WFL1, THFC, and Allia. As expenditure is incurred to pay for our new build programme, Dunedin Canmore will use existing cash resources, followed by drawing down money from Group. The projections assume the new build programme is completed in 2027/28.

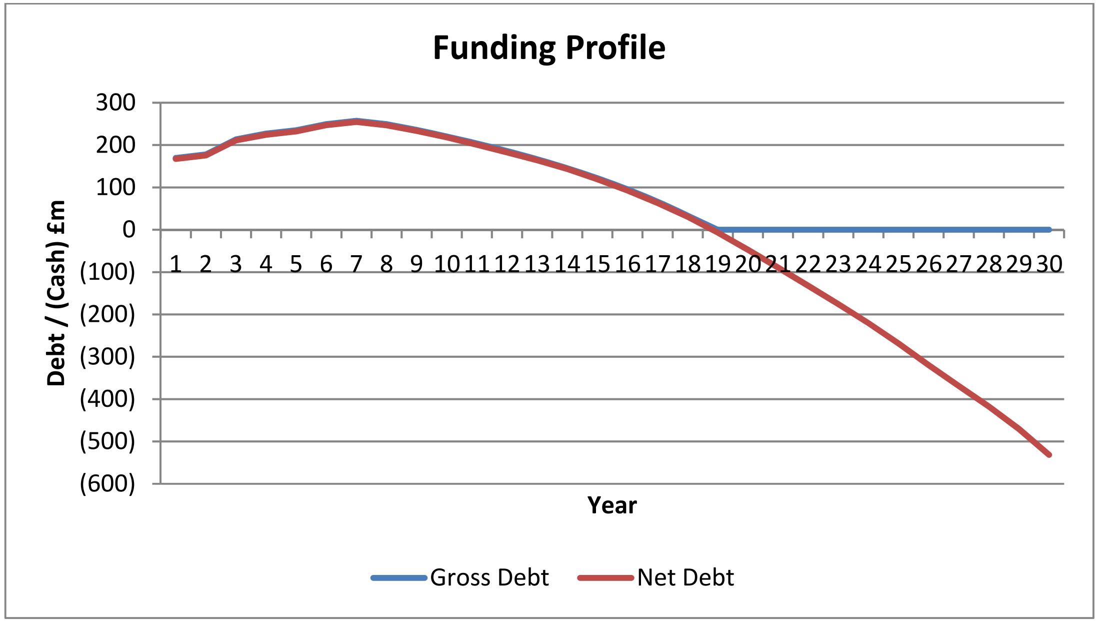
Net Movement in Cash

Across the five years of the plan we anticipate a £65.6m net decrease in cash. This is due to the significant investment in the new build programme.

4. Key Financial Parameters

Dunedin Canmore can borrow from WFL1, subject to debt facilities being available, debt that is supported with its assets and cash flows. Dunedin Canmore, together with all the other RSLs in the Borrowing Group, needs to ensure that all external funding conditions at WFL1 level are met at all times, including compliance with financial covenants. Whilst there are no specific financial covenants at individual RSL level, it is the delivery of the approved business plan financials by each RSL that is key to meeting funding conditions at WFL1.

The resulting debt profile for DCH is as follows:



Indicator	Value
Peak debt	£254.7m
Peak year	2026/27
Repayment year	2038/39 (year 19)
Closing cash	£531.6m

The following criteria need to be taken account when assessing impact of any risks or business decisions on the business plan:

i. Operating margin generation

In the long term operating surplus needs to be sufficient to service debt, i.e. meet interest payments on debt balances and achieve overall financial surplus every year. The business plan assumes that Dunedin Canmore will generate the following operating margins over the next 5 years

Operating Margin	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Total Income (excluding grant income and property valuation movement)	32,643	34,181	36,089	39,141	41,941
Adjusted Operating Surplus	9,457	10,511	12,044	13,256	14,163
Adjusted Operating Margin (%)	***28.97%***	***30.75%***	***33.37%***	***33.87%***	***33.77%***

The adjusted operating margin, which excludes grant income and valuation movements, is lower than operating margin reported in the Statement of Comprehensive Income illustrating the impact that the recognition of grant income on completion of new build has on the results. As new build properties are completed, income increases and the operating costs per unit gradually decrease from efficiencies resulting in the improvement in the operating margin.

ii. Cashflow strength

Cash flows need to be sufficient to demonstrate that there is sufficient cash available to service intra-group debt each year and to repay funding within 30 years. "EBITDA MRI" removes items that are non cash and/or unrelated to operations, such as grant income and property valuation movements, to assess the funds available to meet interest payments. A ratio >1 means that there is sufficient capacity to meet interest payments as they fall due. As the debt principal must also be repaid, long term, the interest cover ratio needs to be comfortably over 1 to demonstrate sufficient capacity to repay capital.

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
EBITDA	**17,259**	**18,546**	**20,936**	**23,385**	**25,599**
Less Capital Investment (Existing Properties)	(5,735)	(6,183)	(6,297)	(6,429)	(6,684)
EBITDA MRI	**11,524**	**12,363**	**14,639**	**16,955**	**18,915**
Net Interest Payable	(7,498)	(8,006)	(9,332)	(10,793)	(11,179)
Interest Cover	**1.54x**	**1.54x**	**1.57x**	**1.57x**	**1.69x**

Interest cover is above 1 in all years of the projections and it shows an upward trend over the 5 years of the projections. Once the remaining new build units are complete and peak debt is reached, the ratio strengthens further over the remainder of the plan. This demonstrates the continued importance of managing DCH's cost base.

Over the longer term it is projected that debt can be repaid in year 19 of the plan with £531.6m of cash generated by year 30.

iii. Asset cover

One of the metrics which governs overall borrowing limits is the value of the owned asset base. The Dunedin Canmore investment and development programme is supported by intra-group borrowing from WFL1 which operates on a Group wide borrowing and asset security basis. Assets are typically based on the cash flows associated with these assets, business decisions, e.g. in relation to rent growth, will have an impact on asset values.

5. Risk analysis

We have performed sensitivity analysis showing the potential impact on the plan of key risk factors such as inflation and the cost base. These scenarios are presented in the below table, and consider changes to multiple Business Planning assumptions, the impacts of these, and mitigating measures.

		EBITDA MRI Interest Cover					Cash flow			
Nr	**Risk description**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Peak net debt £m**	**Debt repaid**	**Cash (Year 30)**	**Mitigation**
Base Case		**1.54**	**1.54**	**1.57**	**1.57**	**1.69**	**254.7**	**19**	**531.6**	
1	Cost inflation decreases to 2.5% from year 3	1.54	1.54	1.57	1.58	1.70	252.7	19	565.9	As expected this has a positive impact on the Business Plan, more so in later years as the compound effect of lower than assumed inflation results in improved performance and cash flows. Whilst there is no change to the year of debt repayment, cash at year 30 increases by £34.3m.

2	Rent increase reduced from 3.5% to 3% for duration of plan	1.54	1.53	1.54	1.52	1.63	258.1	21	392.6	Reduction in rental income results in a reduction of interest cover, and decreases cash by £139m delays the debt repayment by 2 years. In mitigation costs, efficiency savings and review of services required to reduce costs.
3	Bad debt increases by 1%	1.50	1.50	1.53	1.53	1.64	257.7	20	503.4	The increase to bad debt causes debt repayment to be delayed by one year, with peak debt increasing £3.0m, and year 30 cash decreasing by £28.2m. The monthly reporting process would identify any trend towards a deterioration of the bad debt position, allowing for time to understand the reasons and work towards resolution.
4	Management costs are £250k higher each year from year 2	1.54	1.51	1.54	1.54	1.65	256.7	20	512.7	Interest cover is only marginally affected, and remains on trend. Peak debt increases by £2.0m and closing cash is reduced by £18.9m. Operational cost efficiencies would be sought elsewhere in order to mitigate any impact from increased management costs.

5	Repairs & maintenance costs are 5% higher from year 1	1.51	1.51	1.54	1.54	1.65	256.7	20	513.6	As with management cost increases, there is a slight reduction to EBITDA MRI, the main impact is on peak debt (increasing £2.0m) and closing cash (decreasing £18.0m), with debt repayment being delayed by one year. In mitigation cost efficiencies would be sought elsewhere in the event of increasing repairs costs.

6	Additional investment spend of £3m required over years 2-3 for new quality standard or regulations	1.54	1.34	1.37	1.54	1.66	258.9	20	521.6	The additional investment has a significant impact on interest cover in years 2 and 3 due to the effect of additional capex reducing cash surplus, and increased interest costs as a result of additional debt funding. Peak debt increases by £4.2m and repayment is delayed by one year to year 20. Closing cash reduces by £10.m. In mitigation any non-essential works would be delayed in order to accommodate investment priorities, and cost efficiencies would be sought within the operational cost base and new build programme.
7	New build programme accelerated (180 units brought forward by two years)	1.54	1.54	1.58	1.52	1.59	253.7	19	534.2	Worsening of interest cover in short term due to earlier debt requirement however earlier delivery of units results in a benefit to plan over the longer term. Consideration would need to be given to impact of changes in programme on overall borrower group

8	New build programme delayed, (c. 300 units delayed by one year)	1.54	1.54	1.63	1.65	1.67	255.6	19	528.8	Reduction in debt in short term results in improvement in interest cover in years 3 and 4. Over the longer term cash is reduced due to delay in receipt of rental income. Impact could be mitigated by procurement and efficiency savings and performance management.
9	Problem with new build scheme result in 1 year delay and increase in build costs of 10%, no increase in grant	1.54	1.54	1.61	1.58	1.64	258.8	19	523.7	Additional development costs and delay in receipt of rents result in increase in debt and worsening of interest cover by year 5. Investment in existing properties could be delayed to offset the impact or additional efficiency or procurement savings sought.

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DGHP Financial Projections
2020/21

1 Executive Summary

These financial projections are based on DGHP's existing business plan and have been updated to reflect it being part of Wheatley Group. Key tenant promises and the value DGHP expects to gain directly from partnership are reflected in the projections including:

- additional investment capacity for communities through an accelerated home improvement programme;
- keeping rents more affordable than they would otherwise have been;
- hundreds of new homes across the region including many designed for older people;
- an expanded range of excellent services.

Assumptions have been made to reflect these commitments and, in general, a prudent approach has been adopted. These assumptions are documented here and include:

- The development of 1,000 new homes over the next 5 years
- Planned rent increases limited to 2% a year for the next 3 years
- £0.7 million a year in additional investment in staff and services from 2020/21 to reflect an enhanced frontline service model for tenants
- Keeping tenants safe through a robust programme of compliance works and delivering the levels of investment set out in the stock condition survey from 2019 in order to meet our Scottish Housing Quality Standard and Energy Efficiency Standard in Social Housing commitments
- New funding arrangements put in place in December 2019

The plan shows that in partnership with Wheatley Group, DGHP can make the anticipated investment, deliver on tenant promises, and service and repay its debt.

2 Key assumptions

The key assumptions in the DGHP Partnership Business Plan are highlighted below. All figures include VAT and inflation, unless stated otherwise.

2.1 Inflation

General cost inflation of 3% has been assumed in the financial projections for years 2-30. This is consistent with inflation assumptions across Wheatley Group and includes an element of prudence compared to the UK government's CPI target of 2%, current inflation rates and forecasts. Where income or expenditure items are expected to be subject to different rates of inflation this has been reflected.

2.2 Stock numbers

As at December 2019 DGHP owned 10,344 homes for social and mid market rent comprising 6,995 houses and 3,349 flats (including 4 in a block). A provision has been made within the projections for the demolition of 350 of these properties, including approximately 100 poorly performing tenement flats mostly in north west Dumfries which are currently held as void and unlettable. It is assumed that over the first five years c.1,000 new units will be completed with 750 of these delivered as a result of the partnership with Wheatley Group.

The table below shows the assumed stock profile over the period.

Stock Numbers	Forecast							
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Opening Units	10,344	10,361	10,362	10,472	10,792	11,147	11,097	11,047
New Build	17	51	160	370	405	-	-	-
Demolition		(50)	(50)	(50)	(50)	(50)	(50)	(50)
Closing Units	**10,361**	**10,362**	**10,472**	**10,792**	**11,147**	**11,097**	**11,047**	**10,997**

2.2 Rental Income

On average social rents as at December 2019 were £79.77 per week in the transfer stock and £93.43 for new build. DGHP's pre partnership 2019/20 Business Plan assumed that a rent increase of CPI +1.75% and CPI +1% would apply to transfer and new build properties respectively in April 2020, with an increase of CPI+1% assumed for all social housing stock in April 2021 and 2022. However, in line with commitments made to tenants as part of the partnership proposal, these increases have been reduced to 2% only for three years. Assuming CPI was 2% for the three years, this represents a reduction in rent of £3.15 on average per week in transfer stock and £2.95 in new build by 2022/23.

In subsequent years, increases have been assumed in line with Wheatley Group assumptions at 3.5% per annum however these will be reviewed at the time and may be reduced, in particular in the event that interest rates and inflation remain lower than our current conservative assumptions. They will always be subject to consultation with tenants each year. The table below shows assumed rent increases for business planning purposes only.

Rent Increase	2020/21	2021/22	2022/23	2023/24	2024/25 on
Transfer Stock	2.00%	2.00%	2.00%	3.50%	3.50%
New Build	2.00%	2.00%	2.00%	3.50%	3.50%

In addition to social housing, DGHP also collect £361k per annum of rental income in respect of garages and garage sites. This is assumed to increase in line with housing stock. A further £570k is projected to be received from the rental of 100 mid market properties. In line with grant conditions rent increases for mid market properties are linked to CPI, assumed at 2%.

2.3 Operating Performance

Void losses are assumed at 1% throughout for the core rented stock, in line with operational targets and current performance. For the 350 properties projected to be demolished a higher void rate has been assumed based on actual empty and unlettable units and expected time to clear.

The provision for bad debts has been assumed at 2% of gross rental income in 2020/21, which is conservative compared to our current performance of 1.5%. To manage the impact of Universal Credit this is assumed to increase to 2.5% by 2022/23. Void and bad debt assumptions are shown in the table below.

	2020/21	2021/22	2022/23	2023/24	2024/25
Voids (Retained Properties)	1.00%	1.00%	1.00%	1.00%	1.00%
Bad Debts	2.00%	2.25%	2.50%	2.50%	2.50%

2.4 Other Income

In addition to rental income, a further £1.7m is expected to be generated by DGHP in 2020/21 from other income streams. This is comprised of the following:-

- Service charge income – In addition to rental income DGHP charge tenants for services such as stair cleaning. Income of £163k per annum (net of voids) is assumed to be received in respect of this in 2020/21. This is assumed to increase in line with costs each year.
- Leased properties – DGHP lease 34 properties across four sites to other organisations generating £193k of income each year. This income is assumed to remain fixed i.e. does not increase with inflation
- Factoring – £60k of income is assumed to be received each year from the factoring of 627 properties in private ownership within DGHP's stock areas
- Temporary Accommodation - £424k is projected to be received in 2020/21, this is in line with the current contract which is due to end in September 2020. It is likely that this will be extended but this has not been assumed in the financial projections
- Aids and Adaptations - £300k of grant income assumed to be received each year to fund medical adaptations.
- RHI grant - £433k of income is projected to be received in each of the first two years
- Lottery funding for Young Persons Project of £95k is expected to be received in 2020/21 increasing each year until September 2022

The table below shows forecast other income including inflation and other uplifts

Other Income	2020/21	2021/22	2022/23	2023/24	2024/25
Service Charges	163	168	173	178	183
Leased Properties	193	191	191	191	191
Factoring	60	62	64	66	68
Aids & Adaptations Grant	309	318	328	338	348
Temporary Accommodation	424	-	-	-	-
RHI Grants	433	446	-	-	-
Young Person Project	95	101	53	-	-
Total Income	**1,677**	**1,285**	**808**	**772**	**789**

2.6 Staff and Other Management Costs

Staff costs have been based on the existing staffing structure with an additional provision of £0.7m per annum included from 2020/21 on to cover the potential impact of service and operating model development, such as an increase in the number of frontline posts. Total staff costs in 2020/21, including on costs are £8,982k with a provision of £515k in respect of any restructuring costs. No efficiency savings have been assumed in future years. A salary increase of 3% has been provided for in April 2020, as agreed between COSLA and the recognised Trade Unions. Thereafter salary costs are assumed to increase by 2.2% each year in line with assumptions across the group.

Other management costs are largely based on the 2019/20 forecast costs. The total spend on direct costs and overheads is projected to be £4,633k in 2020/21 with the main areas of spend being travel costs £523k, premises £618k, managed services £412k and insurance £592k. While it is anticipated that procurement savings will be achieved as a result of DGHP joining the Wheatley Group no assumptions have been made for these within the Business Plan.

2.7 Repair Costs

Our repairs service is a key priority for our customers and with our existing repairs contracts due to expire in Spring 2020. A dedicated project team has been established to bring repairs ‘in-house’ and good progress is being made including through specifying and implementing a repairs management system, in-depth demand analysis and dialogue with current suppliers on transition. It is expected that bringing repairs and maintenance in house will provide the opportunity to improve services for customers, ensuring most repairs are completed on the first visit. We also expect that this will generate a cost saving however, as the structure of the new service has yet to be finalised, no efficiency saving has been assumed within the financial projections although a reduction in the VAT payable has been recognised from 2021/22 at a prudent level of £0.5m a year. Costs for repairs and maintenance are therefore assumed in line with current contract costs at £11.4m per annum, increasing in line with inflation.

In addition, the plan allows £2.7m for compliance work in 2020/21, focusing on fire safety, asbestos management and electrical safety, with a further £5.3m by the end of 2024/25 and then an ongoing spend of £1m every year.
An allowance of £200k per annum has also been included from 2020/21 on in respect of the new Handyperson service.

The table below shows the profile of spend, including assumed inflationary uplifts over the period.

Repairs and Maintenance	2020/21	2021/22	2022/23	2023/24	2024/25
Reactive repairs	5,037	5,188	5,343	5,520	5,774
Void repairs	2,857	2,943	3,031	3,122	3,216
Heating	1,548	1,595	1,642	1,692	1,742
Landscaping	999	1,029	1,060	1,092	1,124
Other	417	430	443	456	470
Minor Planned Works	538	554	570	588	605
Compliance	2,679	747	1,427	1,470	1,670
Handyperson Service	206	212	219	225	232
In house saving	-	(463)	(477)	(492)	(506)
Total Repair Costs	**14,281**	**12,233**	**13,259**	**13,672**	**14,326**

2.9 Demolition Costs

The financial projections assume that 350 units will be demolished over the seven-year period from April 2021. Costs associated with the demolition, including the physical demolition cost, site security, home loss and disturbance and owner buybacks have been estimated and reflected within the financial projections. Over the period to 2027/28, the total costs in relation to demolition have been assumed at £4.2m. At this stage, this is a conservative assumption for business planning purposes only, and any demolition cases will require to be considered and approved by the Board on a case-by-case basis.

2.10 Capital Investment

Investment in current housing stock

The partnership with Wheatley has released significant new capacity to fund improvements to existing homes and build hundreds of new homes. The focus of the investment programme will be on ensuring we meet and maintain properties to current regulatory standards such as SHQS and deliver additional works to windows, roofs and external walls to meet the EESSH standard on energy efficiency. The additional funding made available through partnership will allow this work to be accelerated and will enable other works identified by tenants as a priority such as improvements to common areas in flats and environmental works such as new paths and fencing to be carried out.

The investment programme has also been informed by a detailed stock condition survey, the final version of which was completed in October 2019, with a total of £282m (excluding VAT, fees and inflation) included over the 30 year period.

The table below shows the profile of capitalised investment works (incl VAT, fees and inflation) over the first five years.

£000s	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Core Investment	15,797	14,455	14,479	13,225	12,499	70,455
Tenant Priorities	5,000					5,000
Total	**20,797**	**14,455**	**14,479**	**13,225**	**12,499**	**75,455**

Investment in new housing

In addition to investment in existing homes, the additional funding made available through the partnership with Wheatley will enable us to invest in new homes. Under previous funding arrangements DGHP's development programme was restricted and it was anticipated that c.250 homes could be completed by 2025. As part of the Wheatley Group, DGHP's funding has been restructured to provide sufficient funding to allow the development of a further 750 properties. The development programme has been updated to reflect the latest delivery programme with the costs and grant income shown in the table below:

£000s	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Development Cost	12,434	15,243	43,841	58,636	36,633	166,786
Grant Income	3,449	5,261	29,916	34,047	11,738	84,411
Net Cost	**8,985**	**9,982**	**13,925**	**24,589**	**24,895**	**82,375**
Units Completed	17	51	160	370	405	1,003

Investment in non-housing assets

In addition to investment in housing a provision of £1.5m has been made in the financial forecasts for investment in IT equipment and systems over the first two years with a further £2.5m assumed in respect of improvement of offices and training facilities in years 1-3.

2.11 Funding

As at 31st March 2019 DGHP had drawn £165m of £185m available funding from Dexia Public Finance Bank, The Housing Finance Corporation (THFC) and Allia Ltd. Dexia was DGHP's principal lender, with an agreed facility of £130m in place of which £110m had been drawn. Transactional banking is provided by RBS.

As the loan agreement and covenants between DGHP and Dexia were a significant factor in limiting DGHP's capacity to raise new funding for development, this debt was prepaid in December 2019 and replaced with the following new facilities:

- M&G - £114m fixed rate private placement with an average weighted life of 25 years (£45m for 15 years; £24m for 23 years; £45m for 35 years)
- RBS - £35m variable rate revolving credit facility with a 10 year term
- Allia – Additional £20m fixed rate debt with a 15 year term and payment of interest and capital at the repayment date

The existing THFC and Allia fixed rate facilities, totalling £55m, remain in place. The financial projections have been updated to reflect the rates and repayment terms per the funding agreements, and the breakage costs associated with the Dexia loan and arrangement fees from the new funding have been included in 2019/20.

Long-term GBP interest rates are at, or close to, historic all-time lows, however there is a great deal of uncertainty in the market with differing predictions as to whether they will increase or decrease in the short to medium term. Our financial projections remain conservative, with variable rates (which apply on the RBS loan) assumed be 3.50% next year – compared with under 1% at the time of writing – and further increases over the next five years to a long term rate of 5% as shown in the table below. Note that should interest rates be lower than these levels, this provides scope to review long term rent increase assumptions.

Interest rate assumptions	Forecast				
	2020/21	2021/22	2022/23	2023/24	2024/25
Interest Payable (LIBOR)	3.50%	4.00%	4.50%	4.50%	5.00%
Interest Receivable	0.50%	0.75%	1.00%	1.00%	1.00%

3. Financial projections – next 5 years

The tables below show the projected financial statements restated to bring the accounting policies applied in line with those used by the Wheatley Group.

3.1 Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2020/21	Year 2 2021/22	Year 3 2022/23	Year 4 2023/24	Year 5 2024/25
	£'000	£'000	£'000	£'000	£'000
Net Rental Income	43,909	44,894	45,974	48,718	52,019
Other Income	1,677	1,285	808	772	789
Grant Income	1,367	3,967	14,636	34,334	34,529
Total Income	**46,954**	**50,146**	**61,419**	**83,823**	**87,338**
Management Costs	(12,284)	(12,434)	(12,723)	(13,047)	(13,741)
Repairs & Maintenance	(14,281)	(12,233)	(13,259)	(13,672)	(14,326)
Bad Debts	(922)	(1,055)	(1,186)	(1,260)	(1,344)
Depreciation	(9,003)	(10,196)	(11,126)	(12,549)	(14,396)
Other Costs	(810)	(248)	(574)	(826)	(851)
Operating Expenditure	**(37,301)**	**(36,167)**	**(38,867)**	**(41,354)**	**(44,658)**
Gain on Investment Properties	74	75	76	76	77
Operating Surplus	**9,727**	**14,055**	**22,627**	**42,546**	**42,757**
Operating Margin	**21%**	**28%**	**37%**	**51%**	**49%**
Net Finance Costs	(6,211)	(6,259)	(6,260)	(7,390)	(9,147)
Movement in Value of Social Housing	1,467	(30,211)	(39,454)	(45,244)	(34,351)
Total comprehensive income	**4,984**	**(22,414)**	**(23,087)**	**(10,089)**	**(740)**

The information presented in the table above includes inflation.

Income

Net rental income is projected to grow over the period as a result of assumed rent increases and the additional properties completed as part of the development programme.

Other income includes grants and funding received for specific short term initiatives in addition to monies received from tenants and factored owners in respect of services provided. The reduction over the period is due to funding for certain initiatives such as temporary accommodation and RHI grants coming to an end.

In line with WHG's accounting policies, housing properties are assumed to be carried at valuation with assumed movements reported in comprehensive income. As properties are carried at valuation, under FRS102, grants received in respect of new build developments are released to the statement of comprehensive income in full on completion of the properties using the performance method. This differs from DGHP's previous accounting policy whereby grant would be released over the life of the asset.

Operating Expenditure

Staffing costs have been updated to reflect the draft proposed staffing structure with additional costs of £0.7m per annum included from April 2020 to fund an increase in posts. No further staff changes are assumed thereafter. Overheads are projected to remain constant over the period, increasing in line with inflation. It is anticipated that there will be some procurement savings from joining Wheatley Group however these have not been assumed within the financial projections.

Repairs and maintenance and major repairs are higher in the first year due to provisions for compliance works. Excluding these, repair costs are assumed to remain relatively stable and are in line with current contract costs. Efficiency savings anticipated from bringing the repairs service in house have not been reflected however a saving of £0.5m in respect of VAT on the employee element of repair costs has been included from 2021/22.

Other costs include a provision of £0.5m in the first year for restructuring, short term costs related to temporary accommodation and the expected cost of demolitions.

Operating Surplus

DGHP are projected to make an operating surplus in all years with this increasing initially as provisions for the cost of compliance works reduce and grant income recognised in turnover in respect of new build increases. The operating margin of 21% in 2020/21 is expected to increase to over 50% by 2023/24.

Funding costs

Funding costs reflect the rates as specified in the loan agreements for the new facilities put in place in December 2019 together with the existing THFC and Allia loans. There is a modest increase in interest payable each year as a result of increased borrowing to fund the development programme and assumed increases in variable interest rates.

Comprehensive Income

From 2021/22 on, total comprehensive income is showing a deficit primarily as a result of the assumed reduction in valuation of social housing properties. This reduction in valuation arises from the difference between the EUV-SH valuation of new build properties compared to the gross cost of development. Over the medium to longer term, increases in income as a result of the development programme are projected to offset this and DGHP moves back into surplus.

3.2 Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	Forecast				
	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Housing assets	404,137	397,146	410,214	430,312	435,471
Investment Properties	7,494	7,569	7,645	7,721	7,798
Other Fixed Assets	1,903	2,597	2,774	1,957	1,358
Total Fixed Assets	**413,534**	**407,311**	**420,633**	**439,991**	**444,628**
Current Assets	37,596	23,941	7,753	7,807	7,861
Current Liabilities	(17,097)	(18,546)	(33,983)	(33,857)	(11,229)
Net Current (Liabilities)/Assets	**20,499**	**5,395**	**(26,230)**	**(26,050)**	**(3,368)**
Long term liabilities	(192,101)	(193,189)	(197,973)	(227,599)	(255,658)
Provisions (LGPS Pension)	(3,743)	(3,743)	(3,743)	(3,743)	(3,743)
Net Assets	**238,189**	**215,775**	**192,688**	**182,599**	**181,859**
Total Reserves	**238,189**	**215,775**	**192,688**	**182,599**	**181,859**

The information presented in the table above includes inflation.

Fixed Assets

In accordance with Wheatley Housing Group's accounting policy housing properties have been forecast at valuation with the opening valuation based on the figures provided by Savills. Over the period shown above, housing and investment properties are expected to increase by 16% as a result of planned investment in existing stock and in new properties.

Other Fixed Assets include fixtures and fittings and IT Equipment, the value initially increases as a result of assumed investment in office accommodation and IT before decreasing in the later years as annual depreciation charges exceed additions.

Net Current (Liabilities)/Assets

Current assets includes rent and other debtors and cash balances with the reduction in assets over the period predominantly due to a reduction in cash. DGHP had cash balances of £53m as at 1st April 2019 with this forecast to increase to £55.9m by 31st March 2020 as a result of the refinancing of Dexia and additional funding put in place. This is projected to reduce as funds are required to deliver the investment and development programme.

Movements in current liabilities relate predominantly to grant received in respect of housing under construction. This is recognised as deferred income until the units are completed at which point it is transferred to the Statement of Comprehensive Income as part of Turnover.

Long Term Liabilities

Long term liabilities relate to outstanding loan amounts net of fees. This is forecast to increase over the period to fund investment in existing properties and the development programme.

Reserves

Over the projected period shown above, reserves are expected to decrease. This is driven mostly by valuation movements resulting from the difference in EUV-SH valuation of new build properties and the cost of development.

3.3 Cash Flow Strength

Cash flows need to be able to demonstrate that there is sufficient cash available to service debt each year and to repay funding within 30 years. A measure often used in the housing sector is "Earnings Before Interest, Tax, Depreciation and Amortisation, Major Repairs Included" ("EBITDA MRI"), which removes items that are non-cash and/or unrelated to operations, such as grant income and property valuation movements, to assess the funds available to meet interest payments and pay for all costs related to current stock.

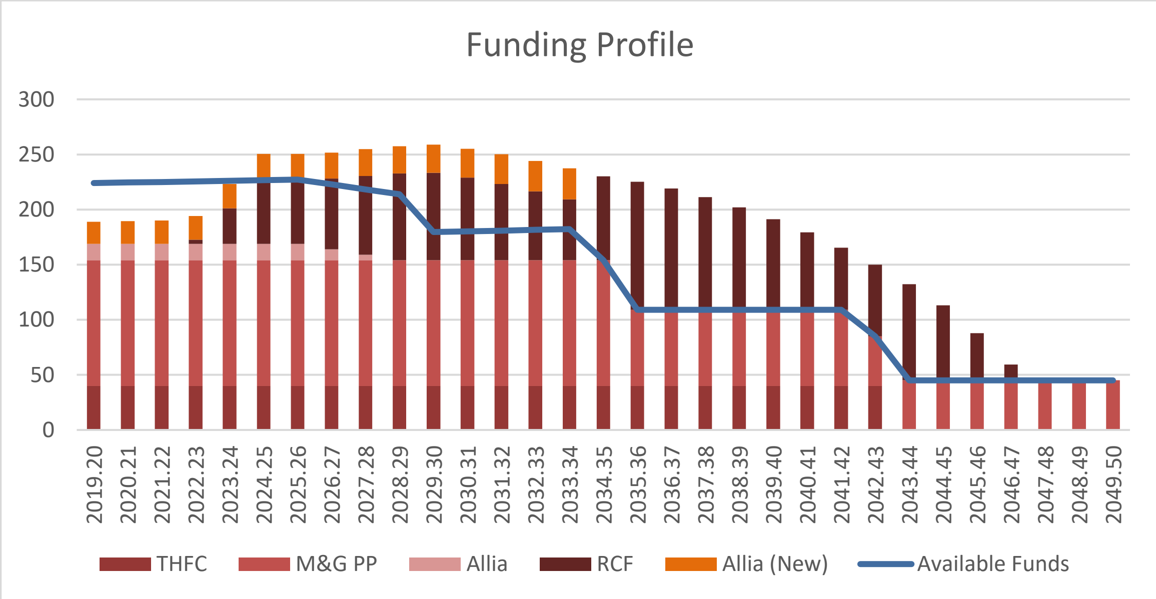
Cash Flow Strength	Forecast				
	Year 1 2020/21 £'000	Year 2 2021/22 £'000	Year 3 2022/23 £'000	Year 4 2023/24 £'000	Year 5 2024/25 £'000
EBITDA	17,289	20,209	19,042	20,685	22,547
Less Capital Investment (Existing Properties)	(22,014)	(15,709)	(15,771)	(14,556)	(13,869)
EBITDA MRI	**(4,726)**	**4,499**	**3,271**	**6,129**	**8,678**
Net Finance Costs	(6,192)	(6,240)	(6,241)	(7,371)	(9,128)
Cover	**(10,917)**	**(1,740)**	**(2,970)**	**(1,242)**	**(450)**

Due to the high level of investment, combined with increased borrowing to fund the development programme, EBITDA MRI is negative in the first year. As income increases and investment required reduces EBITDA MRI becomes positive and by 2026/27 there is sufficient cash generated to cover both investment in existing stock and funding costs. Over the longer term it is projected that debt can be repaid in 2048/49 of the plan with £46.9m of cash generated by year 30.

4. Funding and debt profile

The financial projections for DGHP reflect the refinancing of the current £130m Dexia loan with a £114m private placement, £35m revolving capital facility and an additional £20m facility from Allia. The existing Allia and THFC facilities are assumed to be unchanged. The table and graph below show the key funding indicators and funding profile by facility for DGHP

Debt indicator	Value
Peak debt (net)	£253.8m
Peak debt year	2029/30
Debt repayment year	2048/49
Closing cash	£46.9m



This graph shows DGHP will have sufficient facilities available as a result of the refinancing to fund the development programme over the short to medium term. DGHP's debt level will increase in the short term as investment continues in both existing and new build homes.

The debt starts to get repaid in 2030/31 of the plan and thereafter the debt levels reduce. By 2048/49, there will be sufficient cash to repay debt with an estimated closing cash balance of £46.9m.

Key Financial Ratios / Covenants

As part of the new and existing funding arrangements there are a number of financial covenants which DGHP need to meet. The key covenants are set out below:-

		2020/21	2021/22	2022/23	2023/24	2024/25
Interest Cover (M&G)	DGHP	279.2%	323.9%	305.1%	280.6%	247.0%
	Covenant (> than)	**110.0%**	**110.0%**	**110.0%**	**110.0%**	**110.0%**
	Headroom	£10.5m	£13.3m	£12.2m	£12.6m	£12.5m
Interest Cover (RBS)	DGHP	225.9%	198.0%	178.8%	181.9%	171.0%
	Covenant (> than)	**110.0%**	**110.0%**	**110.0%**	**110.0%**	**110.0%**
	Headroom	£7.2m	£5.5m	£4.3m	£5.3m	£5.6m
Net Debt / Historic Cost (RBS)	DGHP	49.2%	49.3%	50.6%	50.2%	48.3%
	Covenant (< than)	**60.0%**	**60.0%**	**60.0%**	**60.0%**	**60.0%**
	Headroom	£34.1m	£37.1m	£35.6m	£42.9m	£60.6m

The table shows that based on DGHP's financial projections all funding covenants will be met.

5. Risk Analysis

The key challenges for DGHP include:-

- How we best mitigate the risk of the current economic climate including the impact of welfare benefit changes on our business
- The changing housing market in Scotland, with affordability an increasing national priority across a wider range of residents and potential demand implications for social and mid market housing.
- Limitations on public resources creating need for innovative solutions to deliver national priorities and leading to increased demand for our services
- Implementation of the in house repairs service
- Delivery of the new build programme within available resources
- Transformation to a new operating and service model, and group working more generally, within the provision available.

The table below sets out key financial sensitivities on DGHP's funding covenants and key financial indicators.

No.	Risk Description	Covenants		Cash Flow		Mitigation
		Covenants Met (Y/N)	Interest Cover Headroom (Min)	Peak debt	Debt repaid	
2020/21 Financial Projections		Y	**£4.3m**	**£253.8m**	**29**	
Risks						
1	Inflation increases by 0.5% to 3.5% (2% rent cap maintained but long term rent increase of 4%)	Y	£4.0m	£256.7m	28	Procurement and contract negotiation, operational efficiencies and review service and repairs levels.
2	Interest rates are 1% higher from year 2	Y	£4.3m	£258.7m	30	
3	Rent increase reduced to 3% for plan duration	N	-£4.8m	£262.6m	Not repaid	Covenants can be met in first 9 years, with minimum headroom over this period of

					within 30 years	£0.7m. Breach in year 10 which could be mitigated through re-profiling of capital programme or seeking additional efficiencies. Debt however remains above £200m at year 30 with the majority of this at a variable rate. Reduction in interest rates through refinancing and further efficiency savings would be required
4	Voids are 1% higher	Y	£3.8m	£260.9m	Not repaid within 30 years	Performance monitoring and management together with a review of the rent setting policy
5	Bad debts are 0.5% higher	Y	£4.0m	£257.4m	30	Review of rent setting policy, operational efficiencies and service and repair levels to mitigate the financial impact of the additional bad debt costs.
6	Staffing costs increase by £0.5m	Y	£3.7m	£261.3m	Not repaid within 30 years	New operating model and staffing structures will be subject to review and Board approval. Performance monitoring to identify overspends and areas for efficiencies to be realised
7	Repairs costs increase by 10%	Y	£3.0m	£271.1m	Not repaid within 30 years	Performance monitoring and service review to identify areas where efficiency savings can be realised.
8	New Build programme accelerates (100 units brought forward)	Y	£4.6m	£252.8m	29	
9	Development costs are 10% higher on future schemes with no change in grant	Y	£4.2m	£273.8m	Not repaid within 30 years	All schemes subject to appraisal and board approval prior commencement.

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Wheatley Solutions Financial Projections 2020/21

1. Strategic Context

Wheatley Solutions has been established to deliver excellence in shared service provision to subsidiaries across the Group.

Wheatley Solutions is a subsidiary that delivers corporate, back office and other shared group services to the other subsidiaries within the group. The projections do not assume the provision of any services to DGHP initially. Corporate and back office costs for DGHP are reported directly in their plan.

Solutions provide the following services:

- Executive Team
- Employee Relations
- Marketing and Communications
- Company Secretary and Community Governance
- Policy and Service Development
- Finance
- Assurance
- Business Solutions, including legal services
- Information Technology
- Wheatley Hub
- Business Development
- Research & Development
- The Academy
- Regeneration and Asset Management

2. Financial Projections

2.1 Operating costs – underlying/real terms (excluding inflation)

Costs incurred by Wheatley Solutions are predominantly revenue employee and running costs. These have been estimated based on the current year forecast adjusted for identified savings. In future years, costs reflect anticipated savings generated through improved efficiency and service provision. The projected costs are shown in table 1, in 2020/21 prices (i.e. excluding assumed inflation and pay rises).

Regulated insurance activities – the projections include the costs of the provision of buildings and home contents insurance to factored homeowners from 2020/21 onwards. An application has been submitted to the FCA seeking approval for Wheatley Solutions to be the approved agent for the Wheatley home contents insurance scheme offered to tenants and factored homeowners as well as the building insurance offered to factored homeowners. Both schemes are currently offered by YourPlace and administered by Aviva with YourPlace acting as the agent and will be transferred to Solutions on approval by the FCA who are currently considering the application. We expect approval in early 2020/21.

The regulated insurance activities in the table reflect the anticipated insurance premium costs for both insurance schemes.

Table 1: Operating costs

Wheatley Solutions	2020/21	2021/22	2022/23	2023/24	2024/25
Costs £000s					
Staff	16,111	15,600	15,447	15,447	15,447
Running costs	9,986	9,833	9,811	9,811	9,811
Regulated insurance activities	3,111	3,111	3,111	3,111	3,111
Total	**29,208**	**28,544**	**28,369**	**28,369**	**28,369**

Operating costs are fully recharged to other subsidiaries of Wheatley Housing Group within the same year. This means that Wheatley Solutions bears no risk of financial gain or loss.

Inflation

Inflation during 2019/20 continued on a downwards trend, and in December 2019 RPI was reported at 2.2%, with CPI at 1.3%, a reflection of weakening demand from households in their discretionary spending, a result of a number of uncertainties across the wider UK economy. However, markets are expecting inflation to rise in 2020/21 and we have held our expectation for cost inflation as shown in the table below to move upwards to 3% retaining an element of prudence in our forecasts.

Cost Inflation assumptions

	20/21	21/22	22/23	23/24	24/25
General Cost Inflation	3.00%	3.00%	3.00%	3.00%	3.00%

The assumption in relation to employee cost inflation is 2.2% per annum.

Table 2 below shows how projected operating costs are recharged across the 5 year period. These figures include assumed inflation and pay rises.

Table 2: Income and expenditure statement

Wheatley Solutions	2020/21	2021/22	2022/23	2023/24	2024/25
Costs £000s					
Staff	16,111	15,943	16,134	16,489	16,852
Running costs	9,986	10,128	10,409	10,721	11,043
Regulated insurance activities	3,189	3,268	3,350	3,434	3,520
Total	**29,285**	**29,339**	**29,893**	**30,644**	**31,414**
Income £000s					
Income from recharges	25,609	25,571	26,031	26,685	27,357
Income from regulated insurance activities	3,679	3,771	3,865	3,962	4,061
Total	**29,288**	**29,342**	**29,896**	**30,647**	**31,417**
Profit before tax	**3**	**3**	**3**	**3**	**3**
Tax	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**
Profit after tax	**2**	**2**	**2**	**2**	**2**

The above demonstrates that income received from subsidiaries and regulated insurance activities would be equivalent to costs. If costs were to vary from those projected the recharge would be adjusted to ensure that overall Wheatley Solutions remains financially neutral.

Income from regulated insurance activities

The commission earned on insurance activities is currently retained by YourPlace. On the grant of FCA approval, this commission will transfer to Wheatley Solutions with a corresponding reduction in the recharge to Lowther for their share of Wheatley Solutions services.

The five year projections also now incorporate a mark-up on intercompany charges at 5% to comply with transfer pricing regulations. This charge has previously been handled as an end of year item and would show as a management account to statutory accounts reconciling item when the annual accounts are presented to Board. This change will mean Wheatley Solutions' and each subsidiary's management accounts from 2020/21 will reflect the marked-up charge and remove the need for an end of year adjustment.

The financial projections make provision for an annual rental charge for Wheatley House from GHA, as owners of the building.

Taxation

To ensure Wheatley Solutions is FCA compliant it is required to retain a minimum reserve at the level of 2.5% of recurring income from insurance activities. Solutions will meet the reserve requirement at 1 April 2020 and in the projections reserves are forecast to increase by an inflationary element in line with the income projections for the regulated insurance activities. This translates to a small recurring surplus each year, on which a small corporation tax charge is payable. This tax charge has been reflected in the table above. Other than this, Wheatley Solutions is not forecasted to make any material surpluses or deficits that would make it subject to corporation tax.

2.2 Efficiency savings

The financial projections assume that the cost savings achieved to date continue, as incremental savings are assumed in the first 5 years with employee costs the key area of focus. Employee costs are planned to reduce by £664k in real terms over the 5 year period. These savings will be achieved through our well-established workforce planning process.

With a greater proportion of the technology sector moving to a subscription based service, additional provision of £500k has been made to account for infrastructure, back up and data centre services. Efficiencies are also targeted in running costs with costs reducing by £175k in real terms by 2024/25.

Key areas of focus over the next 3 years are targeted procurement savings in utility and cleaning contracts which are due to be retendered, reduced print and mailing costs from the promotion of online accounts with customers through a modernised customer engagement framework supported by our digital transformation strategy. Savings have also been identified on legacy IT contracts now that group RSL's have fully migrated on to group wide systems.

2.3 Group service recharges

While it is anticipated that in future years Wheatley Solutions may consider providing services externally, thus generating additional income for the Group, it has been assumed within the financial projections that all income will be received from the other subsidiaries within the Group.

The charge to each subsidiary has been determined in line with the current charging policy, based on a share of Group turnover. This is adjusted in certain cases to take account of the specific nature of the subsidiary (e.g. care services) or where the subsidiary does not access all the Group's services.

Based on this calculation the percentage charged to each subsidiary is estimated to be as follows for 2020/21 financial year:

	GHA	**Cube**	**WLHP**	**Loretto Housing**	**Loretto Care**	**Dunedin Canmore**	**Lowther**	**Foundation**
Allocation	72.01%	5.31%	0.22%	1.61%	0.91%	10.25%	8.59%	1.10%

The charge previously made to Barony has been split between Loretto Care and Dunedin Canmore in line with the individual business plans, and has been reflected in the table above. The business plan for Lowther assumes the merging of its private rental business with the factoring operations of YourPlace. A single recharge is shown in the table above for the merged business under Lowther.

While Wheatley Solutions charges subsidiaries for its services based on share of turnover, over time it would be expected to take an increasingly commercial approach. This will provide a much clearer link between the volume and quality of service provided and the amount charged.

2.4 Capital Investment

Wheatley Solutions manages IT investment for the group, although all assets will be transferred to our charitable RSLs in 2020/21 following a review by our principal tax advisors in order to minimise corporation tax for Wheatley Solutions.

Each subsidiary makes a capital contribution and in return receives access to group IT systems and networks. Examples of these systems include iWorld (rent management) and ASTRA (customer relationship management). The table below outlines forecasted IT capital investment of £14.1m over the next five years, and the capital contribution each subsidiary is planned to make towards this.

Wheatley Solutions	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Investment £000s						
IT Capital	2,652	2,732	2,814	2,898	2,985	**14,081**
Capital contribution £000s						
GHA	1,990	2,006	2,066	2,128	2,192	10,382
Cube	187	188	194	200	206	974
WLHP	19	19	19	20	21	98
Loretto Housing	71	72	74	76	78	370
Dunedin Canmore	280	340	351	361	372	1,704
Lowther	106	107	110	113	117	553
Total	**2,652**	**2,732**	**2,814**	**2,898**	**2,985**	**14,081**

The 5 year allocation of £14m is intended to cover key IT investment, IT project delivery and staff funded from IT capital for Group.

Alongside the Digital aspirations for Group services to customers and staff, a safe, secure and reliable technology service is critical to ensure that the Group operates and support business strategy outcomes from 2020-2025. Group IT manage the investment and operational delivery for over 2800 staff through an ongoing programme of improvements, upgrades, vendor and contract management and project and programme delivery.

This investment will support a number of key service investments including:

- Core network improvements and upgrades across the network devices and services supporting our national geographic network, including call centre voice services, core data centre services and Wi-Fi.

- Desktop platform replacement. This means a move from our own, on premise hosted virtual desktop service to a fully-managed infrastructure as a service (IAAS) desktop hosted service, improving availability, simplifying configuration and management, providing a modern desktop experience through 2025 and improving end-user security.

- Azure cloud service migration. This supports our cloud adoption for application, server hosting and native cloud services whilst improving resilience and elasticity of services provisioned.

- Information security improvements across monitoring, detection, prevention and response; includes cloud service security, penetration testing and remediation, security service and protection improvements (malware, anti-virus, edge and core network security, security incident and event monitoring), device and application management services across network, desktop and mobile estate services.

- Application upgrades and device refreshes. Group IT maintain all core applications through an ongoing upgrade and major patching release schedule. This ensures that primary applications are deployed on the latest vendor releases; by doing this it improves overall security posture and provides Group with the latest features and functions, as well as ensuring that underlying platforms and services are maintained and improved across the lifecycle of the business service.

The above service investments form the building blocks required across the network and core systems in order to support customer adoption of self-service models and business service changes that are key to digital transformation of the Group. Further digital delivery roadmap planning is underway, including assessment of approach and budget to deliver Group Digital Strategy with the intention of presentation to Board in Autumn 2020. Further review of the budget provision may be required in light of this, but this will be subject to further discussion at the Group and Wheatley Solutions Board. It will be important that increased levels of investment in digital programmes can be justified in terms of benefits to tenants when compared with alternatives such as investing in improvements to customers' homes and keeping rents down.

DGHP partner integration will include approximately 325-350 staff joining Group platforms, desktops, applications etc. Capital budgets will be assessed following this delivery (due 2021).

Group IT and Group Finance continue to manage the capital and revenue commitments for IT services and vendors across Group, including the changing profile of capital/revenue funding mixes due to the ongoing adoption of subscription based models by all of the major vendors and service providers across the global technology industry. Provision for an additional £500k in annual IT revenue costs, as noted in 2.2 above, has been made to account for this changing profile.

3. Risk Analysis

All costs incurred by Wheatley Solutions are fully recharged to the other subsidiaries within the Group, therefore it is not anticipated that any changes will impact on Wheatley Solutions and its ability to continue to trade. There would however be an impact on the other subsidiaries within the Group so budgetary control remains key in delivering group services to other Wheatley subsidiaries in order to ensure costs are controlled.

Increasing costs within Wheatley Solutions due to failure to achieve savings or increased pension costs for example would result in increased costs in all subsidiaries. This could impact on their ability to meet their own financial targets.

In terms of employee costs, pay rises are within our control. A significant proportion of running costs are fixed over the short to medium term, such as rent, rates, insurance premiums and IT support and maintenance costs for core systems. This means we are protected to some degree from the impacts of inflation, although it also means running costs savings will be targeted more on discretionary areas of spend in the short term. Continued monitoring and control of running costs to ensure underlying efficiency targets are met will therefore be a key requirement for Wheatley Solutions.

Report

To: Wheatley Housing Group Board

By: Steven Henderson, Group Director of Finance

Approved by: Martin Armstrong, Group Chief Executive

Subject: Rent and other charges 2020/21

Date of Meeting: 19 February 2020

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1. Purpose

1.1 This report:

- Provides feedback from our consultation on the 2020/21 RSL rent and service charge increase; and
- Seeks Board approval for the 2020/21 rent and service charge increases.

2. Authorising context

2.1 Under the Group Authorising Framework, the Group Board is responsible for the Group rent setting and pricing framework. As part of this, the Group Board is responsible for agreeing rent increase parameters that each Registered Social Landlord ("RSL") Board has the authority to agree an increase within.

2.2 The Group Board agreed that a minimum increase of 3.4% should be the basis of consultation with each RSL's tenants. It also agreed that options should be discussed with tenants for increases of 3.9% and 4.4%, with tenants asked whether they would be prepared to pay these higher levels in return for additional local investment.

2.3 All partner RSL Boards met during February and have agreed, on the basis of considering their own consultation feedback, to support increases of 3.4%, other than for Barony tenants transferring to West Lothian Housing Partnership ("WLHP") and Dunedin Canmore, and for Dumfries and Galloway Housing Partnership ("DGHP"), where 2% rises are proposed in line with tenant ballot commitments. The Group Board now has to decide whether to approve these proposals.

3. Risk appetite and assessment

3.1 The Wheatley Group Board's risk appetite in relation to regulatory practises (Housing Regulator and Care Inspectorate) such as rent increases is cautious, that is, "preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward".

3.2 The Scottish Housing Regulator undertook a thematic enquiry into how Registered Social Landlords ("RSLs") consult with tenants about rent increases. In tandem, the Scottish Federation of Housing Associations ("SFHA") issued guidance on rent setting and affordability. The main risk highlighted by these publications related to RSLs setting rent without due regard to meaningfully engaging tenants and affordability.

3.3 We mitigate this risk through rich engagement with our tenants on our rent proposals through a combination of focus Groups, local engagement and a statutory consultation process.

4. Background

4.1 The rent increase assumptions in our financial projections are subject to annual review. The annual review takes into account the key principles set out in our Group rent setting framework:

1) Financial viability;
2) Affordability;
3) Comparability; and
4) Consultation with tenants and service users.

4.2 The Board considered the first 3 principles as part of agreeing the baseline consultation levels during discussions at the meetings on 30 August. The consultation with tenants is the final element of our rent setting process prior to formally agreeing rent levels.

5. Discussion

5.1 Our consultation approach has been refined in recent years to provide a greater degree of insight into our tenants' views on our rent setting proposals. Our rent setting process for 2020/21 involved two stages; firstly a series of focus groups and direct tenant engagement; then a full written consultation issued to all tenants with voting options, including a "none of the above" option.

5.2 Barony did not participate in the main consultation approach as their rent setting consultation incorporated within the proposals for changing of landlord to Dunedin Canmore Housing or WLGP. The proposals to tenants were that the rent increase would be capped at 2% for the next 3 years in the event of a positive ballot otherwise it would be 3.4%.

5.3 Similarly, Dumfries and Galloway Housing Partnership included a specific rent offering within their partnership proposals for them joining the Group, again capped at 2% for 3 years. DGHP are separately consulting tenants at present on this 2% increase.

5.4 Cube, Dunedin Canmore Housing, GHA, Loretto Housing and WLHP were therefore the 5 RSLs covered by the main rent setting consultation process. At both stages of the main rest setting consultation process, based on the information provided explaining the rationale for the increase in rent, a majority of tenants voted for an increase.

Of the c3000 responses to the second stage, the results were as follows:

RSL	% of tenants in favour of one of the three increase options
Cube	61%
Dunedin Canmore	68%
GHA	61%
Loretto Housing	63%
WLHP	56%

5.5 All 5 RSLs received a majority of tenants indicating support for one of the increase options, with four of the five at over 60%. More detailed feedback from the consultation process is set out below.

Focus Groups

5.6 This year, we further refined our approach to the focus groups, with a lead officer (Managing Director and/or Head of Housing) from the relevant RSL presenting to tenants as part of giving more context to the proposals.

The presentation and accompanying video set out the key elements contained within the proposed consultation brochure to be sent to all tenants, specifically:

- How we spent tenants' money in the previous year ie what rent pays for;
- Key challenges for the year ahead; and
- The rent options.

5.7 Our independent advisors who facilitated the focus groups, BMG, supported the events, but having the relevant lead officer taking questions and receiving feedback was welcomed by tenants. In order to maintain the independence of the focus groups, staff did not participate in the subsequent focus group discussions.

5.8 In total we undertook 19 focus groups, with at least 2 per individual RSL and one for waiting list applicants. In total there were 180 attendees at the focus Groups.

5.9 The focus groups allowed us to engage with tenants in more depth on our rent setting proposals, in particular:

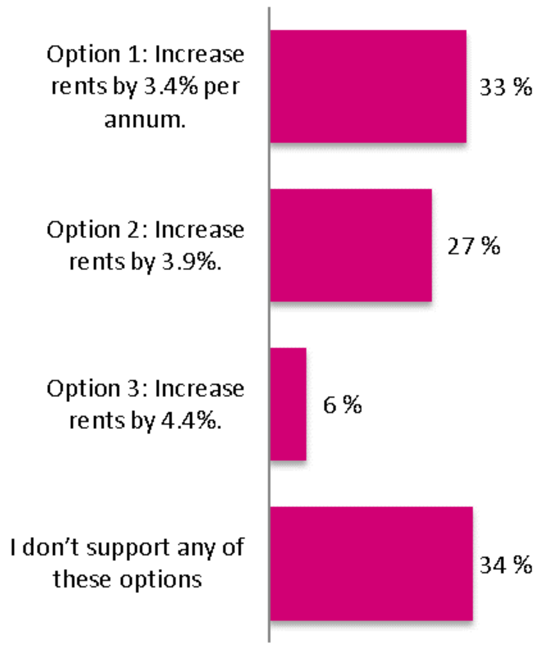
- Tenants' perception of what their rent pays for *vs* what it actually pays for;
- Tenants' understanding of the drivers of rent increases;
- Value drivers for tenants in terms of rent levels; and
- General feedback on tenants' views of our landlord services in the context of rent.

5.10 In exploring these issues with tenants, as opposed to asking a binary 'yes or no' question on rent proposals, we were able to gather a) quantitative feedback by testing if the group discussion and increased knowledge of how rents are set impacts tenants' views of rent, and b) qualitative feedback we can use to understand what drives and impacts tenants' views on rent setting, potentially informing our service delivery and future strategic thinking.

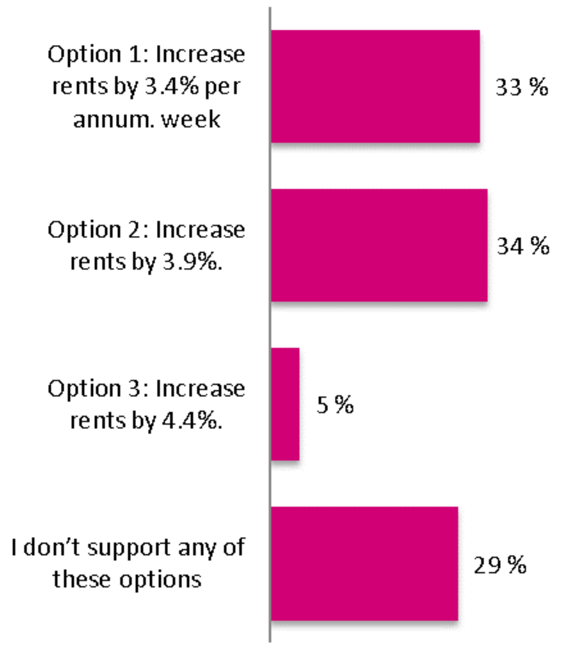
5.11 In terms of the quantitative feedback, the statistical data provided by BMG from the focus groups is, as was the case last year, provided at Group level. Together, support for the options 1-3 was 72%, which rose from 66% following the discussions and supporting information on the reasons for the increase. The breakdown by option is shown below.

Views on rent rise proposals before and after the provision of supporting information

Survey 2: Thinking about next year's rent which option do you support?



Survey 3: Following the discussions and conversations that you have heard/had today at this moment in time thinking about next year's rent which option do you support?



5.12 Focus group participants identified, as expected, that key drivers of satisfaction were:

- property type;
- level of investment received;
- service feeling personalised eg choices of fixtures and fittings;
- relationship with Housing Officer;
- inside of home;
- level of anti-social behaviour; and
- repairs service.

These drivers represent underlying drivers which are well understood from our tenant satisfaction surveys.

5.13 In relation to the repairs service, BMG indicated that the recent changes and improvements in the service were recognised by tenants at the focus groups, indicating "*In comparison with last year, it would appear that tenants' estimation of the repairs service has improved*".

5.14 BMG further identified the impact of our wraparound services during the focus groups, indicating that:

"*tenants (across all RSLs) who have experienced a range of wraparound services are noticeably more satisfied with and appreciative of their RSL, and are keen to impress on other tenants the value of this assistance".*

5.15 The single biggest driver of dissatisfaction identified during this year's focus groups was anti-social behaviour, with BMG stating "*even if the interior of a tenant's house has been refurbished to a high standard, problems with anti-social behaviour, particularly in their own blocks, are having an immense impact on many tenants' quality of life and level of satisfaction*".

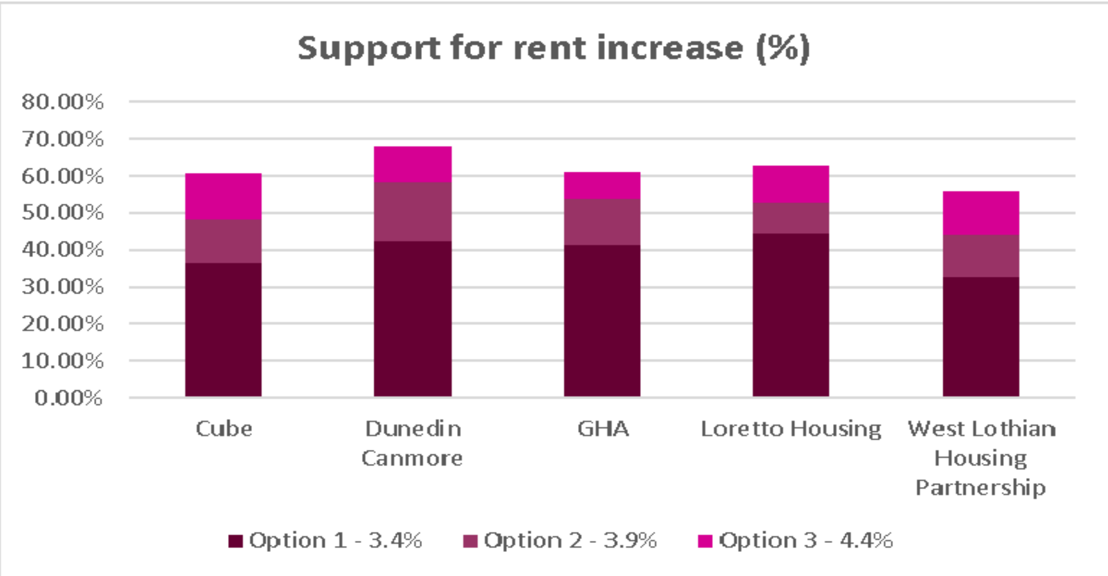
5.16 Part of this issue relates to the pace at which tenants would seek such issues to be resolved relative to what can be achieved in practice. We are currently in the process of revising our Anti-Social Behaviour Framework and will consider the feedback as part of this process.

5.17 In terms of how rent is spent, the focus groups again considered the breakdown of how each £1 is spent. As with last year, attendees were surprised at how low a proportion staff and administration is of our overall costs.

<u>All-tenant consultation</u>

5.18 We consulted all tenants (with the exception of Barony), as we have a statutory duty to do, using the consultation booklet agreed by the Board and revised to reflect the feedback from the focus groups. The consultation ran from November 2018 to 12 January 2020. Tenants were able to respond email, prepaid return slips, telephone or online.

5.19 Across all RSLs the number of tenant responses was very similar to the previous year at 2992 (vs 3001 last year). The results by subsidiary are set out below:

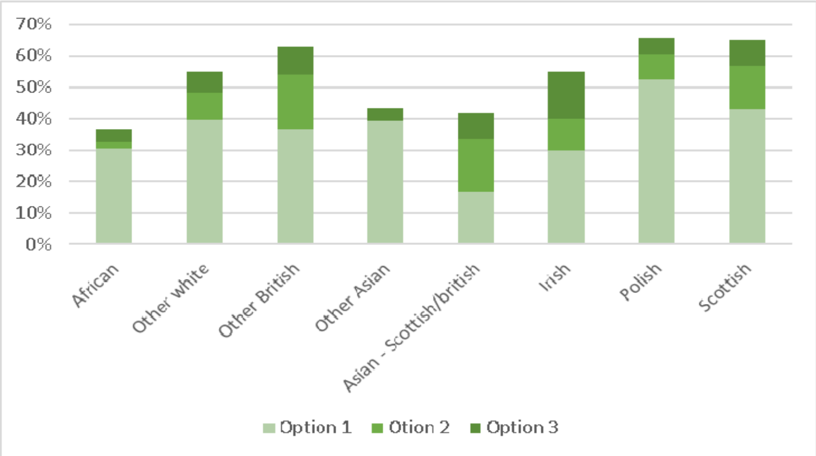


5.20 Comments from tenants were invited as part of their response, and the main themes emerging were consistent with those of the focus groups, particularly in relation to affordability where none of the options was supported.

5.21 We undertook further analysis of the responses to identify if there were any variations in responses based on different tenant characteristics. It should be noted that not all respondents provided this information; however, details are set out below:

<u>Ethnicity</u>

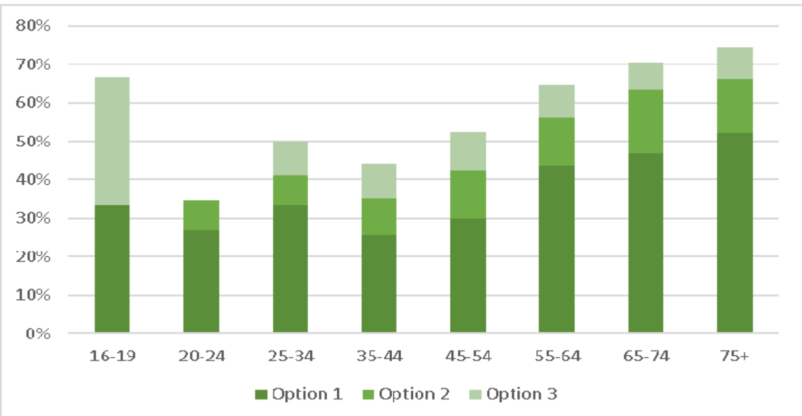
5.22 A total of 2,826 respondents provided ethnicity information. We have analysed the difference in response by ethnicity, with the table below setting out the findings for ethnicity groups where there were at least ten respondents:



5.23 By ethnicity, five of the eight categories had a majority in favour of one of the options. The three highest levels of support, other British, Polish and Scottish represented 2549 of the 2826 respondents.

<u>Age</u>

5.24 In total, 2848 of respondents provided their age range in the response. The data identified that support levels are, as in previous years, generally correlated to age, with the level of support ascending with the age groups. The exception to this is our youngest age group, 16-24 year olds. This age group is however the smallest response group with only 6 responses. The results are set out below:



5.25 Six of the eight categories had a majority of respondents in favour of one of the increase options. The six categories represent 2,549 of the total respondents.

Comparative social landlord increases for 2020/21

5.26 We have compiled data on the rent setting proposals for RSLs and local authorities across Scotland where information has been available. A full list is set out at Appendix 1. The sector data shows a wide range of increases.

6. Key issues and conclusions

6.1 The feedback from tenants across the Group indicates a strong level of support for a rent increase when this is explained in the context of what it will deliver. The level of support for an increase rose compared to last year in five of our RSLs.

6.2 The additional demographic analysis shows that this support is high in the vast majority of segments, and there is still a majority for an increase even where tenants are not in receipt of any housing benefit.

6.3 It is proposed that the Board therefore approves an increase of 3.4% for Cube, Dunedin Canmore Housing, GHA, Loretto Housing and WLHP and a 2% increase for Barony and DGHP.

6.4 The DGHP tenant consultation is still underway on the basis of the level agreed as part of the partnership proposal. Should the DGHP Board wish to deviate from the 2% proposals, a separate Group Board approval will be required.

6.5 As previously discussed with the Board during this year's rent setting we are developing our own affordability model for the 2021 rent setting process. This will include considering how we draw on more localised data in understanding affordability and the potential introduction of local variations in our rent setting.

7. Value for money implications

7.1 Our value for money framework approved by the Board in 2017 clearly identified the need to improve the ways in which we listen to and communicate with customers in relation to value for money; this has taken place through our consultation process.

7.2 The rent setting consultation relates to the three prominent value drivers for value for money, these are; the repairs service, the quality of homes and customer service.

7.3 Delivering value for money starts with us understanding how we can build value for each of our customers. Having consulted with our customers on rent setting through a more robust and choice based approach it is anticipated that this could positively impact key drivers relating to customer satisfaction indicators in the future.

8. Impact on financial projections

8.1 As set out above and in the separate financial projections paper on the agenda.

9. Legal, regulatory and charitable implications

9.1 Consultation with tenants on any increases in rent or service charges is a requirement of the Housing (Scotland) Act 2001. The approach set out in this paper therefore discharges our requirement to consult under the Act.

9.2 The 2016 Scottish Housing Regulator Thematic Review of Rent Setting detailed a number of recommendations, including provision of options to tenants during rent setting consultations. The approach taken this year responds to these recommendations.

10. Partnership implications

10.1 There are no partnership implications arising from this report.

11. Implementation and deployment

11.1 Following approval of the rent and service charge levels, tenants will subsequently receive notification of the final decision in writing 28 days clear of a change in rent being applied.

12. Equalities impact

12.1 No implications noted.

13. Recommendations

13.1 The Board is asked to:

1) Consider the feedback received through the extensive consultation process with tenants on our 2020/21 RSL rent and service charge increase; and
2) Approve Cube, DCH, GHA, LHA and WLHP within the Group applying a 3.4% rent and service charge increase for 2020/21 and formally writing to tenants to confirm this; and
3) Approve the application of the lower rent and service charge increases of rates of 2% for transferring Barony tenants and DGHP tenants.

List of Appendices

Appendix 1 – rent increase proposals for other Scottish social landlords 2020/21

RSL/LA	Consultation	Option 2	Option 3
Albyn	2.7%	4%	
Almond	2%	2.5%	3%
Ark	3.4%	4.4%	
Castle Rock Edinvar	3%		
East Lothian Council	5%		
Hillhead	3.1%		
Link	2.5%	3%	
Maryhill Housing	3%		
Milnbank	3.5%		
Molendinar Park	3%		
NG Homes	3%	3.5%	3.75%
Queens Cross Housing	2.4%	2.9%	
Riverclyde Homes	2.5%	3%	3.5%
Sanctuary Housing	2.7%	3%	3.2%
South Lanarkshire Council	3%		
Thenue	2.6%		
Trust	1.7%		
WESLO	3.3%	3.8%	4.3%
West Dunbartonshire Council	2%	1.9%	2.5%
West Lothian Council	3%		

Report

To:- Wheatley Housing Group Board

By:- Elaine Melrose, Group Director of Resources

Approved by:- Martin Armstrong, Group Chief Executive

Subject:- DGHP Transformation Programme

Date:- 19 February 2020

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1 Purpose

1.1 To seek approval for a transformation programme for DGHP that delivers on the promises that were included in our partnership proposal and supports its migration to working effectively as part of Wheatley Group.

2 Authorising context

2.1 Under the Group Authorise/Manage/Monitor Matrix, the Wheatley Board has responsibility for ensuring progress with key strategic projects such as DGHP's migration to operating successfully as part of Wheatley.

3 Risk appetite and assessment

3.1 The transformation programme is covered by the Operating model (modernising services etc) category in the Group's risk appetite framework. Risk appetite in this area is "***Hungry***". This level of risk tolerance is defined as "eager to be innovative and choose options offering potentially higher business rewards (despite greater inherent business risk)".

3.2 A full risk analysis will support the transformation programme. For now, key risks are highlighted.

Risk	The transformation programme is seen as more change when staff are already uneasy about the level of change in DGHP and how it has been managed
Impact	Lack of engagement with staff makes achieving required outcomes more challenging and, in extreme, could make delivering the desired outcomes unachievable
Mitigation	▪ Early and on-going engagement with staff. ▪ Being clear on the value of the required outcomes including how they will benefit staff and customers. ▪ Develop and successfully execute a communications and staff engagement plan.
Risk	Other priorities means that required resources are not made available to deliver the transformation programme
Impact	Required outcomes are delayed, reduced in scale and/or not delivered
Mitigation	▪ Board level commitment to programme in DGHP and Wheatley. ▪ Reprioritisation to ensure resources are available. ▪ Robust and detailed programme planning and management.
Risk	DGHP does not have the skills needed to achieve the required transformation
Impact	Transformation fails to deliver required outcomes
Mitigation	▪ Supplement capabilities in DGHP with group and external expertise as required. ▪ Ensure most experienced and capable staff lead the programme. ▪ Learn from other parts of Wheatley that have achieved similar change and reuse existing processes, systems and methods wherever possible and applicable.

4 Background

4.1 Considerable progress has been made already in DGHP's transformation through partnership with Wheatley including but not limited to:

- Establishing the formal constitutional partnership on 12 December 2019 - within 6 months of DGHP deciding on joining Wheatley.
- Refinancing DGHP so as to create financial capacity for investment in its homes and to provide far greater business flexibility.

- Continuing progress in bringing DGHP's repairs service in house which will provide a platform for service improvement and better customer experience.
- Engaging staff positively on the principles that will underpin DGHPs future operating model, namely:
  - Think Yes – at the heart of interactions with our customers, both internally and externally.
  - 1:200 patch sizes – enabling front line staff to build even stronger relationships with our customers to deliver personalised customer service.
  - Customer First – delivering the right outcomes for customers will be what informs our future processes.
  - Staff supported and empowered to achieve best outcome for customer.
  - Customers will receive end to end service – reducing hand offs between staff/teams which will increase ownership for staff and improve customer experience.
  - Structure based around service delivery – operating principles will inform structure.
  - Flatter structure - shorter authorising environment so that decisions are taken as close to the customer as possible
  - Working collaboratively and staff involved in designing service delivery.
  - Grow the opportunities for employment in the area.
  - Use the specialisms in the group whilst sharing our expertise.

- The appointment of DGHP's new Managing Director and its Head of Repairs.

4.2 The transformation programme proposed at Appendix 1 looks to build on this progress and appetite for change in DGHP that exists currently.

5 Time to Excel: Transformation programme

5.1 The proposed DGHP transformation programme at Appendix 1 has been developed to deliver the expected benefits from partnership that were set-out in Wheatley's proposal to DGHP. These benefits are grouped in terms of their impact on **DGHP** as an organisation, its **stakeholders, tenants and staff,** and are summarised below:

- Benefits for DGHP:
  - An end to high engagement with the SHR.
  - Strengthened landlord compliance.
  - An even stronger Board with access to CPD and talent.
  - In-house repairs and investment delivery.
  - Service Excellence.
  - Enhanced financial capacity through refinancing existing loans.
  - Strategic landlord of choice across Dumfries and Galloway.
  - An even stronger local presence, identity, voice and partner.

- Benefits for Stakeholders:
    - Strong, committed local partner.
    - No need for high engagement.
    - Committed, long term funders.

- Benefits for Tenants:
    - Accelerate investment in homes.
    - Increased new build.
    - Wider range of services including digital, accessible local housing officers, extensive wrap around support and specialist to meet particular need.
    - Stronger ‘voice’ to influence decisions.
    - Lower rent increases than the current business plan. assumption (2% max for 3 years).
    - MySavings.

- Benefits for Staff:
    - Enhanced careers pathways.
    - Access to bespoke locally based and online learning.
    - No compulsory redundancies.
    - Corporate service staff locally based.
    - Part of organisation with reputation for excellence.
    - WE Benefits.

5.2 The programme also looks to support DGHP so it has the capacity and capabilities to realise its future ambition as part of Wheatley.

5.3 Time to Excel has been developed as a specific brand for the transformation programme to provide a focal point for engaging with staff and customers, and to be clear on necessary pace and ambition.

Time to EXCEL
Putting your customers first

5.4 Time to Excel will require changes to DGHP’s strategic context, structure, operating environment and staffing structure. These changes, which will support DGHP as part of Wheatley Group, also provide opportunities, which - if capitalised on - will drive and embed the business change that DGHP has previously identified as essential.

5.5 Developing and implementing an operating model for DGHP that fits with our group ethos and culture, and partnership commitments (i.e. accessible local housing officers, extensive wrap around support etc) is an initial priority. This model, which staff in DGHP are being consulted on currently, initially prioritises change in:

- housing so as to have housing officers that are focused on patches with around 200 tenants and accountable for all aspects of the service provided;
- investment and development to ensure there is adequate capacity in these areas to meet planned increases in DGHP activities in these areas;
- repairs to reflect the move from provision through a third party provider to in-house delivery; and
- DGHP's ethos to reflect a culture that supports empowerment and accountability.

5.6 Appendix 2 provides the consultation document that has been distributed to DGHP staff as part of in-depth engagement on proposed changes.

5.7 Examples of other key changes and the opportunity they provide are outlined below:

Changes	Potential opportunity	Expected benefit
DGHP's strategic context will now include that of the Group and its stakeholders	To refresh DGHP's strategy to set a clear vision, take advantage of group capabilities and focus on serving customers	Increased strategic ambition that takes full advantage of capabilities available to DGHP as part of Wheatley
DGHP's Board forms part of wider group governance environment	To build on the extensive expertise in DGHP's Board and to have it focus on strategic governance rather than stabilisation	Even stronger and more effective governance that directs DGHP as it becomes the *landlord of choice*
A new operating model that reflects ThinkYes and 1:200 frontline housing	Empowered staff that know their customers and are equipped to respond to needs	Improved customer service and a culture in DGHP that provides the foundation needed to become an outstanding organisation

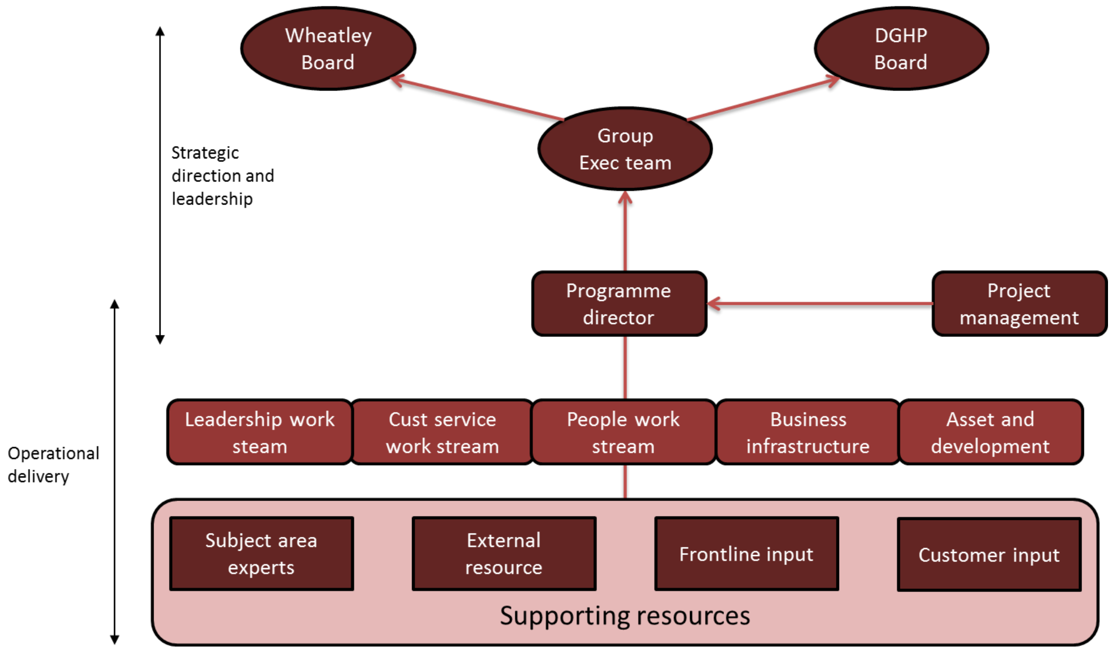
Changes	Potential opportunity	Expected benefit
Introducing key group frameworks/ ways of working to DGHP. Particular frameworks will include: ▪ Assurance ▪ Financial reporting ▪ Performance reporting ▪ Treasury management ▪ SHR and other regulatory reporting ▪ Board meeting preparation and planning ▪ Executive level decision making ▪ CSE/IIP/EFQM	Using these group frameworks to provide established methods to deliver improvement for the benefit of customers and staff	Access to fully developed frameworks, and skilled practitioners, with a proven track record in supporting improved performance and customer excellence DGHP contributes fully to group wide external accreditation plans and is recognised for excellence with resulting positive impact on stakeholder perception
Involving DGHP as part of key group processes including: ▪ Strategic planning ▪ Business planning ▪ Rent setting ▪ Workforce planning	Using these processes to build shared understanding with colleagues in group and to make use of established approaches.	Increased capacity among DGHP, and group, staff through joint working, and sharing ideas, knowledge and approaches
Staff in DGHP will work with, and across, the larger staff pool in Wheatley	To use Wheatley staff expertise to provide support to DGHP staff as they embark on cultural and other change	Access to resources and expertise to support DGHP drive improvement
Moving to Wheatley's group service model	Access to skills, expertise and resources to support DGHP transformation and business operations.	Allows DGHP's leadership to focus on customer service delivery and provides its corporate staff with career pathways and the opportunity to work, in D&G as part of larger distributed staff teams in Wheatley

5.8 Time to Excel is built around the following themes and required outcomes. Quick wins in each theme are also identified.

Theme	Outcome	
Leadership	▪ DGHP and its strategy are aligned with wider group direction and priorities ▪ A culture of, and approach to, measuring and driving performance is embedded in DGHP ▪ DGHP's governance, as part of Wheatley Group is recognised as an exemplar ▪ DGHP's reputation with stakeholders is further enhanced including through being a partner in Wheatley Group	
	Quick win	Group policies and frameworks
Customer Service	▪ DGHP customers enjoy an enhanced customer experience with DGHP delivering services that reflect customer needs similar to others in Group	
	Quick win	Day 1 customer offer and in house repairs
People	▪ DGHP staff are supported to deliver high performance and are aligned with, and contributing to, the transformation	
	Quick win	Characteristics of operating model defined
Business infrastructure	▪ DGHP has the operating and systems environment it needs to support its business	
	Quick win	Access to group finance, treasury, assurance, governance, HR, ICT etc expertise
Asset and Development	▪ DGHP has the operating and systems environment it needs to support its business	
	Quick win	Achievable development programme

5.9 Delivering the programme will draw on expertise from across Wheatley Group and DGHP. This expertise will be supplemented by specialist external expertise where needed. The programme at Appendix 1 looks to complete DGHP's transition to group working in around 15 months. This timeline is challenging for a programme of the scale and complexity planned, but achievable based on experience of other new partners transitioning to working effectively as part of Wheatley group.

5.10 The structure below will be used to deliver the programme and provide the senior level focus that such a transformation requires. The structure also includes customer and frontline staff input to ensure that customer needs drive the required change.



5.11 Given the strategic importance of the transformation and the associated interdependencies from a regulatory, governance, performance and reputational perspective, progress towards the overall outcomes will be reported quarterly to the Wheatley Board.

5.12 The Group Executive Team will provide executive level oversight including through periodic progress reporting from the Programme Director. Day-to-day leadership will be provided by the Programme Director. The Programme Director is an experienced Director in Wheatley with extensive experience in leading previous migrations to group, and understanding of change management, a collaborative approach and a track record of delivering improvement.

5.13 Considerable involvement will be required from staff across DGHP supplemented by group capabilities, to ensure that - as an absolute minimum - existing customer service and performance is not affected adversely by the DGHP-wide focus on transformation.

5.14 Systems development and migration to group systems will be the most effective way of embedding key aspects of the planned transformation. Planning in this area will be taken forward as part of the programme, with a dedicated project manager for this key area.

5.15 Strong leadership, good programme governance, adequate resources and culture change will be critical to the successful transformation, and in establishing an environment where staff at all levels are empowered to deliver for their customers within a clearly defined strategy. Such an environment will typically be characterised by:

- Sustained and positive energy levels.
- Cross-functional and collaborative working for the benefit of customers.
- A culture of openness, trust, transparency and a willingness to communicate at all levels, where leaders inspire, coach and support development.
- A preparedness to embrace change and to see it as the norm.
- Confidence and a willingness to challenge with clear organisational objectives that are owned by conscientious and motivated leaders and their teams.

5.16 Particular attention will be taken in establishing the team that drives the transformation to ensure that these characteristics are exhibited.

In-house repairs

5.17 As well as the activities in Time to Excel, work is also on-going to bring DGHP's repairs service in house – the last of our initial priorities between now and April as part of bringing DGHP into our Group. This service is expected to go live on 1 April 2020 as planned and in line with our partnership commitments. Key activities include installing a new repairs management system, integrating it with DGHP's existing housing management infrastructure, TUPE transferring trades staff from DGHP's current provider (Morgan Sindall) to DGHP and putting supply arrangements in place to support service delivery. The most significant of these supply arrangement are for:

- building materials,
- fleet and
- sub-contracting.

Building materials

5.18 Various options have been considered to ensure repairs staff in Dumfries and Galloway have necessary building materials available to them in a timely manner. Of these a managed service agreement with the Saint Gobain Group (one of the biggest construction materials providers in the world and parent to Jewsons, Grahams and others) for all trade materials was identified as the preferred approach. This approach includes St Gobain establishing a new distribution centre for the fulfilment of DGHP requirements, full integration with the Servitor repairs system and distribution to local storage points for collection by staff. DGHP's Board has considered the approach in detail, agreed it and made provision for the expenditure in its business plan as part of Wheatley which the Board is due to consider at this meeting.

5.19 The expenditure involved of around £1.5 million a year over the three plus two year of the contract means that approval is also sought from the Wheatley Board. The proposed procurement approach is a direct award via the Cirrus Purchasing Materials Framework and is compliant with legal requirements. This Framework provides robust terms and conditions and has allowed early collaboration with Saint Gobain to develop an innovative solution for the provision of trade materials which has been specifically designed for the newly created DGHP repair team. Suppliers appointed to the Cirrus Framework have undergone rigorous commercial and quality selection, ensuring value for money.

5.20 To check value for money for DGHP specifically, prices of the top 50 highest spend building materials used currently through its Morgan Sindall's contract were compared with the St Gobain proposal. This showed a cost that was 9% cheaper than DGHP pays currently. Subject to the Board agreeing, the Saint Gobain contract will be available for all Group members to take advantage of the commercial and service benefits.

<u>Fleet</u>

5.21 Morgan Sindall's existing fleet supplied by Northgate will novate as an interim solution to the current group contract with the same supplier. Doing this will ensure value for money and continuity of supply as the new repairs service is established. DGHP's requirement will then be included as part of the planned procurement of a new fleet solution for all group partners later this year. As part of this, brand new fleet will be available for DGHP. This fleet will be branded in line with our Group MyRepairs livery.

<u>Sub-contractors</u>

5.22 Sixteen sub-contractors, used currently by Morgan Sindall in delivering DGHP's repairs service, have been identified as necessary to ensure continuity of service delivery. These sub-contractors will now contract directly with DGHP via the integrated Servitor system which will be managed and maintained by DGHP operational staff. The level of service requirement from subcontractors is currently unknown therefore a flexible approach to contracting will be pursued for a period of 12 months, enabling DGHP to shape service prior to entering into longer term committed contracts.

6 Key issues and conclusions

6.1 Transformation is required in DGHP to ensure the benefits of its partnership with Wheatley are realised, it can operate effectively as part of Wheatley and the strategic importance of DGHP (and therefore Wheatley) in Dumfries and Galloway is maximised.

7 Value for money implications

7.1 The transformation programme fits with all three of the value for money drivers that customers across Wheatley have identified – repairs, investment in homes and 24/7 customer services. Implementing the programme will help ensure that value is delivered for DGHP customers.

8 Impact on financial projections

8.1 The transformation programme will be delivered within existing DGHP and Wheatley business plans, and the building materials managed service is included in DGHP's business plan.

9 Legal, regulatory and charitable implications

9.1 There are no legal or charitable implications associated with the transformation programme. Ensuring DGHP exits high engagement with the SHR is a specific intended benefit of partnership that will be supported through delivering the programme. It is also to be expected that the SHR will seek updates on progress as part of its routine engagement with Wheatley.

9.2 The proposed building materials managed service with St Gobain has been procured in line with legislative requirements and approved by the DGHP Board.

10 Partnership implications

10.1 Strengthening DGHP and its ability to deliver local priorities including new build and employability opportunities through the transformation programme will enhance its relationship with key stakeholders.

11 Implementation and deployment

11.1 Indicative implementation timescales are included at Appendix 1. A specific identity 'Time to Excel' has developed for the transformation programme to support engagement and bring those involved together, with a single purpose.

12 Equalities impact

12.1 Equalities implication will be considered as part of detailed scoping and delivery of applicable activities in the transformation programme.

13 Recommendations

13.1 The Wheatley Board is asked to:

1) agree the proposed transformation programme, and
2) agree the proposed managed service arrangement with St Gobain for building materials as part of DGHP's in-house repairs service.

List of Appendices

Appendix 1: Time to Excel transformation programme
Appendix 2: Time to Excel staff consultation brochure

DGHP transformation programme

Key activities and people

January 2020

V 1.2 (updated 17 January 2020)
Transformation delivery team

[Table redacted]

DGHP Transformation Programme

Leadership work stream: [redacted]

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
DGHP and its <u>strategy</u> are aligned with wider group direction and priorities	Develop DGHP's vision and ethos for the future – what it wants to be	Staff and leadership aligned on future vision	[redacted]	[redacted]	Dec 19	L1
	Evolve and align DGHP's strategy to reflect its ambition as part of Wheatley Group	Agreed refresh strategy available			Mar 20	L2
	Review and revise (as necessary) DGHP's operating model in Group context • Housing (including environmental and wrap around) • Corporate • Repairs	New operating model agreed			Mar 20	L3
	Develop, consult on and implement staffing structures	Staff in roles in new operating model/structure			May 20	L4
	Explore respective roles of DGHP3, Novantie Lowther and Wheatley Solutions to ensure maximum strategic and operational synergies	Clear roles and accountabilities including value adding intra-group service relationships where appropriate			Sept 20	L5
	Support DGHP staff in making and maintaining strategic and operational connections with colleagues across Wheatley	DGHP and its staff see themselves, and are seen as, an integral part of Wheatley group			On-going	L6
	Build and reinforce DGHP transformation brand so it reinforces the nature and value of positive change for DGHP	Brand developed for DGHP transformation programme			Dec 20	L7
	Programme of cross-group Board engagement and development	Strong links between members of governance structures			On-going	L8
	Work with SHR so they understand DGHP progress and delivery against desired improvement	End to high-engagement status			Apr 20	L9
	Plan future (beyond the life of this	Plan agreed			Dec 20	L10

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
	transformation programme) change in DGHP					
	Recognise and articulate the impact that DGHP has on Wheatley including how it has changed as a result	Staff and stakeholders across Wheatley understand how the group has changed through partnership			Sept 20	L11
A culture of, and approach to, measuring and driving <u>performance</u> is embedded in DGHP	Review existing approach to performance management	Confidence in how performance in DGHP is measured			Feb 20	Prf1
	Identify suitable benchmarks for use in comparing key elements of performance	Suitable benchmarks identified			Feb 20	Prf2
	Align expectations and behaviours with the supportive/empowered/ accountable environment need for high performance	Values and required behaviours understood by all staff			Jun 20	Prf3
	Introduce performance framework that aligns with approach in wider group – strategic target setting, flowing all the way through to expectation of individual performance	Framework being applied			Mar 20	Prf4
	Articulate importance of ARC measures (and high performance more generally) across all staff	Performance measures in place			Jun 20	Prf5
	Explore opportunities to sharpen focus on performance at individual and team levels, and roll out new approaches	Gap analysis between what is needed and existing approach			Jun 20	Prf6
	Share expertise from group on supporting good performance	Performance reporting available through covalent			On-going	Prf7

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
	Roll out Covalent to support availability of timely, information on performance – local manual input	Covalent in place with useful measures			Jun 20	Prf8
	Make any required DGHP systems changes to support effective and accurate information in Covalent	Automated provision of data to Covalent			Sept 20	Prf9
	Performance reporting through group systems	Aligned to group reporting mechanisms			Mar 21	Prf10
	Monitor use and support staff during familiarisation stage	Staff are comfortable with new approach			On-going	Prf11
	Use performance information to drive improvement	Continuous improvement adopted as way of working			On-going	Prf12
DGHP's <u>governance</u>, as part of Wheatley Group is recognised as an exemplar	Update DGHP policy environment to include and reflect group policies • key/identified as risk in DD • all other	DGHP aligned with applicable Group Polices			Mar 20 Sept 20	G1
	Implement group governance framework (standing orders GAF, GAMM etc) and performance reporting changes required for effective group working	Group frameworks deployed in DGHP			Mar 20	G2
	Programme of cross-group Board engagement and development	Strong links between members of governance structures			On-going	G3
	Introduce Board member appraisal, development plans and succession model in line with group wide approach	Agreed group wide Board Development plans in place at DGHP			Mar 20 onwards	G4
	Create environment through which Board can focus on strategic leadership	Board can step back from more operational considerations			On-going	G5

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
	Review approaches taken to supporting, including through papers provided, Wheatley and DGHP Boards and adopt best practice	Quality of Board reports improved through adopting best practice			Jun 20	G6
	Board member (cross group) familiarisation with expectations and opportunities that come with DGHP as a partner in Wheatley	Strong and effective relationship established between board members from across the group			Mar 20 and as required	G7
	Produce a Board development plan	Board development plans are in place			Jun 20	G8
	Explore and implement options for building a pipeline of future Board members	Increased tenant involvement in governance			Jun 20	G9
DGHP's <u>reputation</u> with stakeholders is further enhanced including through being a partner in Wheatley Group	Develop themes to support communications of, and buy in to the transformation programme	Widely recognises DGHP transformation programme			Dec 19	R1
	Develop and promote DGHP Brand in line with its vision	Key stakeholders recognise the value DGHP brings			On-going	R2
	Conduct assurance review on DGHP	Key risk areas assessed and actions agreed			Mar 20	
	Review risk management approach and link to group wide approach	Refreshed risk management approach in place			Mar 20	R3
	Develop business continuity plans in line with agreed group policy	Group business continuity policy implemented at DGHP			Mar 20	R4
	Develop strong relationships with Dumfries and Galloway Council including through strategic agreement	Strategic Agreement in place			Jun 20	R5
	Transition to group assurance arrangement	Assurance programme delivered			Mar 20	R6
	Group external audit appointed	Consistent approach			Sept 20	R7
	Map key stakeholder environment in DGHP	Understand, influence and leverage stakeholder landscape			Sept 20	R8

Customer Service work stream: [redacted]

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
DGHP customers enjoy an enhanced customer experience with DGHP delivering services that reflect customer needs similar to others in Group	Review and update as necessary customer data	Key data available for all customers	[redacted]	[redacted]	Mar 20	CS1
	Develop Customer Segmentation for DGHP customer base	Segmentation available for DGHP			Sept 20	CS2
	Finalise day 1 services (see below) and implement	Finalise Implement			Nov 19 Mar 20	CS3
	Role and behaviour/ethos training and development for frontline housing and repairs staff and managers	Staff are focused on customers, Think Yes ethos			Jun 20	CS4
	Roll out mobile technology Repairs Housing	Staff agree they have technology needed to do job			Mar 20 Sept 20	CS5
	Provide support to adopt new ways of working – patch based, VMB, performance managed	Staff become established in new roles			June 20	CS6
	Systems training for frontline housing staff on group systems	Staff can use key group systems			Depends on migration timescale	CS7
	Scope and phasing on (future beyond day 1) customer facing services is agreed	Partnership value for tenants realised			Feb 20	CS8
	Refresh and expand customer engagement approaches and activities as necessary	New expanded customer engagement in place			June 20	CS9
	Develop understanding of customer defined localities across Dumfries and Galloway and introduce locality planning	Customer feel the needs in their localities are understood and reflected			Sept 20	CS10
	Support effective participation by DGHP staff in existing group structures that are focuses on customer service improvement	DGHP staff participate fully in group communities of excellence			On-going	CS11

	'Day 2' service development complete, with future service innovation part of BAU	Partnership commitments met			Dec 20 (long-stop date)	CS12
	Use CSE/IIP/EFQM frameworks to review progress and shape priorities for on-going development	DGHP included as part of group CSE reviews			Sept 20	CS13
	Engage CIP to support DGHP	CIP involvement to address local issues			Sept 20	CS14
	Make links between Wheatley 360 and DGHP wraparound teams	Shared learning in establishing services			Sept 20	CS15
	Review and support allocations process in DGHP	Links between my housing and CHR in D&G understood			Sept 20	CS16

Day 1 services offer

Day 1 (assume 31 March 2020)	**Potential Day 1 (subject to scoping)**
My Savings	24/7 – full service -
Handyperson service – resourced in DGHP	Welfare benefits advisors - ensuring customers are aware of their full entitlement
Free books for U5s – Dolly Parton Imagination Library	Fuel advisors - helping to improve customers' energy efficiency and lower their fuel bills,
Bursary programme – up to £1,500 for people in DGHP Homes going to FE/HE	Home Comforts - providing free recycled quality furniture to people in need;
Response fund – hardship assistance for tenants	Eat Well - providing emergency food supplies to vulnerable customers,
Employability – Wheatley pledge wage incentive for employers (non-supplier) offer jobs and apprenticeships for people in DGHP homes	Access to discounted homes content insurance
Police product – details to be confirmed	
Group protection services	

People work stream: [redacted]

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
DGHP staff are supported to deliver high performance and are aligned with, and contributing to, the transformation	Develop customer centred, high performance culture, with empowered staff	Staff engagement and satisfaction	[redacted]	[redacted]	On-going	P1
	Assess leadership development requirements to build required capabilities and capacity	Leadership development requirements agreed			Mar 20	P2
	Define respective roles and accountabilities of DGHP executives and Board members in group context to ensure clarity and improve decision making	Respective roles and accountabilities of execs and boards understood			Mar 20	P3
	Programme of cross-group staff engagement and development	Respective roles understood and strong links established between staff in new roles			On-going	P4
	DGHP workforce planning linked to group	Overall group wide view of resource requirements			Jun 20	P5
	Digital Skills Audit	Audit complete			Mar 20	P5
	Annual learning plan developed for DGHP based on skills profiling	Learning plan for DGHP agreed			Mar 20 (annual thereafter)	P6
	Roll out WE benefits (rewards gateway) to DGHP staff	Staff can access online and high st savings			Mar 20	P7
	Review of recruitment and induction to support DGHP going forward	Key recruitment needs agreed and on gong induction			Mar 20	P8
	Refreshed approach to personnel development planning rolled out for staff providing clear expectations on role, performance, behaviours	Updated approach			Jun 20	P9
	Career development pathways and accredited learning in place for key groups including:	Pathways agreed			Jun 20	P10

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
	Leadership Middle managers Frontline					
	Local Academy to support people development established – operational aspects	Dedicated space for learning and development			Sept 20	P11
	Communities of Excellence embedded for key services	DGHP staff participating fully			Jun 20	P12
	Approaches in place for DGHP to recognise success in individuals and teams.	Agreed approach rolled out and working well			Sept 20	P13
	Talent pipeline established – graduates, apprentice, leaders of the future	DGHP has staff to meet future needs			Sept 20	P14
	DGHP success recognition approach agreed	Key achievements being celebrated			Sept 20	P15

Business infrastructure work stream: [redacted]

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
DGHP's has the operating and systems environment it needs to support its business	Review existing priorities and approach to Finance, and migrate to group working arrangements	DGHP corporate services part of group approach	[redacted]	[redacted]	Jun 20	BI 1
	Review existing priorities and approach to Communications, and migrate to group working arrangements	DGHP corporate services part of group approach			Jun 20	BI 2
	Review existing priorities and approach to Treasury, and migrate to group working arrangements	DGHP corporate services part of group approach			Mar 20	BI 3
	Review existing priorities and approach to Learning and Development, and migrate to group working arrangements	DGHP corporate services part of group approach			Jun 20	BI 4
	Establish DGHP Accommodation strategy – Physical Academies and office premises	Learning base in DGHP and appropriate accommodation			Jun 20	BI 5
	Review existing priorities and approach to Treasury, and migrate to group working arrangements	Common understanding of DGHP approach			Jun 20	BI 6
	Review existing priorities and approach to business as usual (Support, purchasing etc) ICT, and migrate to group working arrangements	DGHP corporate services part of group approach			Jun 20	BI 7
	Review existing priorities and approach to other corporate services, and migrate to group working arrangements	DGHP corporate services part of group approach			Jun 20	BI 8
	Assess future group wide systems approach to determine preferred approach to migrating DGHP	Systems migration approach agreed			Mar 20	BI 9
	Review and design DGHP's future **systems environment** based on group capabilities and DGHP's emerging requirements	Common understanding of capabilities and priorities			Jun 20	BI 10
	Plan system migration to group systems	Agreed approach, plan and timescales			Sept 20	BI 11

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
	Implement transition to group systems	Common systems as part of group			Mar 21	BI 12
	Determine approach to customer contact taking account of DGHP	Joined up customer contact handling approach			Sep 20	BI 13
	Implement agreed approach	New approach implemented			Jun 21	BI 14
	Explore options for pension consolidation	LGPS schemes linked			Mar 21	BI 15

Asset and Development work stream: [redacted]

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
DGHP's has the operating and systems environment it needs to support its business	Review existing priorities and approach to **development**	Common understanding of DGHP develop programme	[redacted]	[redacted]	Dec 19	DA1
	Migrate DGHP development activities to Group working	Robust approach in place			Mar 20	DA2
	Develop development programme reporting in line with group standard	Robust info on DGHP development activities for Board			Jun 20	DA3
	Review existing **compliance** arrangements across key risk areas – gas, asbestos management, fire, legionella, transport, CDM etc	Common understanding of DGHP compliance position			Feb 20	DA4
	Migrate DGHP compliance activities to Group working	Robust approach in place			Mar 20	DA5
	As necessary design new approach to key health and safety risk areas	Agreed approach to addressing any identified issues			Mar 20	DA6
	Implement new compliance approach and reviewed effectiveness	Compliant operations			Jun 20	DA7
	Review existing approach to **asset management** and **investment planning and delivery**	Common understanding of DGHP asset management capabilities and investment priorities			Mar 20	DA8
	Migrate DGHP asset management and investment planning activities to Group working	Agreed approach			Jun 20	DA9
	Year 1 investment delivery mobilisation complete				Jun 20	DA10
	Finalise DGHP investment priorities for year 1 and programme for yrs 2 to 5	DGHP investment plan – to meet tenant promises			Mar 20	DA 11
	Migrate to PIMMS/group systems	Consistent approach to assets with rest of group			Sept 20	DA 11
	Review DGHP corp estate and develop future strategy	Clear corp asset strategy			Jun 20	DA 12
	Migrate approach to corp estate to group and implement strategy	Corp asset strategy being implemented			Mar 21	DA 13

Outcome	Key Actions	Measures	Assigned Lead	Support	When	Task id
	Review implementation of planned **in-house repairs** delivery including benefits realisation	Common understanding of success and priorities			Sept 20	DA 14
	Develop plan to further develop and optimise repairs	Agreed approach to further enhancement			Dec 20	DA 15
	Implement changes and monitor effectiveness	Further enhancements			Mar 21	DA 16

DGHP Transformation Journey: expected progress by work stream

End of….	March 20	June20	Sept 20	Dec 20	Mar 21
Leadership	DGHP strategy as part of Wheatley Assurance review complete Key group polices applied to DGHP Group risk frameworks introduced	New staff structure implemented Performance culture adopted Reporting through covalent – using manually inputted info DGHP Board meetings and papers meet group standard Strategic agreement with D&G Council	Future of DGHP3 and Novantie decided Reporting automated with DGHP system produced data Pipeline for future Board members established Group external audit adopted	Fully aligned to group working	Reporting automated using group systems produced data Performance culture embedded
Customer service	In-house repairs rolled out Day 1 customer offer rolled out	In house gas service ThinkYes/Customer focus embedded Tools and approaches to support new ways of working (VMBs,	Tools for mobile working deployed	Full Customer offer deployed – Day 2	Full suite of info available to support customer service

		performance info etc) – manual work arounds			
People	Define desired of operating model Skills/resource gaps in DGHP known Understand expectations in group	Learning and career pathways for DGHP staff New structure	DGHP Academy in place DGHP takes part on W.E. Excel		
Business infrastructure	Group approach to finance, HR, Treasury and assurance defined	Group approach to other corp services in place	Migration to group systems fully planned		Migration to group systems complete
Asset and development	Group support to DGHP development, compliance, and investment established		Aligned asset management approach with rest of group established	Next phase of in-house repairs development complete	

How plan delivers on the promises to DGHP in the partnership proposal

DGHP

Benefit	Tasks (reference to proposed transformation programme above)	When
An end to high engagement	L7, L9, CS12, P1, P2, Prf 3, prf 4, Prf 10, G1-G9, R3, R6, DA4	April 2020 * subject to agreement with SHR
Strengthened landlord compliance	DA 4-7	Sept 2020
An even stronger Board with access to CPD and talent	G1-G9	Sept 2020
In-house repairs and investment delivery	Current deliverable through on-going partnership development work	April 20/Jun 2020
Service Excellence	L1, L3, CS1 to CS13	Mar 21
Enhanced financial capacity through refinancing existing loans	Current deliverable through on-going partnership development work	Dec 20
Strategic landlord of choice across Dumfries and Galloway	L7, R1 – R7	Mar 21
An even stronger local presence, identity, voice and partner	L7, R1 – R7	Mar 21

Stakeholders

Benefit	Tasks	When
Strong, committed local partner	L7, CS10, R1 –R8	
No need for high engagement	L7, L9, CS12, P1, P2, Prf 3, prf 4, Prf 10, G1-G9, R3, R6, DA2	Apr 20
Committed, long term funders	Current deliverable through on-going partnership development work	Dec 19

Tenants

Benefit	Tasks	When
Accelerate investment in homes	Current deliverable through on-going partnership development work, L3, L4, DA8 –DA11,	From Apr 2020
Increased new build	Current deliverable through on-going partnership development work, L3, L4, DA1–DA3	From April 2020
Wider range of services including digital, accessible local housing officers, extensive wrap around support and specialist to meet particular need	CS3, 5, 8, 21, BI 10-14	Mar 20 and Dec 20
Stronger 'voice' to influence decisions	CS 9 and CS10	Mar 21
Lower rent increases than the current business plan assumption (CPI (2%) only for 3 years)	Current deliverable through on-going partnership development work	Mar 20
My Savings	CS3	Mar 20

Staff

Benefit	Tasks	When
Enhanced careers pathways	P4, P8, P9, P10, 14	Sept 20
Access to bespoke locally based and online learning	P11	Sept 20
No compulsory redundancies	Current deliverable through on-going partnership development work	Mar 20
Corporate service staff locally based	L3, BI 1 to BI 9	Mar 20
Part of organisation with reputation for excellence	R1 to R8	Mar 21
WeBenefits	P7	Mar 20

Appendix 2

Time to Excel staff consultation brochure

Time to EXCEL

Putting your customers first

Our proposals for a new way of working

February 2020

Listing to you

We have listened carefully to everything you, and our customers, have told us about what we need to do to turn Dumfries and Galloway Housing Partnership (DGHP) into a truly customer-focused organisation.

Thank you to each and every one of you who shared your ideas during sessions at the end of last year as we consulted on plans to become part of Wheatley.

Your feedback has shaped our plans for a new way of working. It's a new way of working which will help us deliver consistently excellent services to all of our customers and fulfil the commitments we made to our communities during the partnership consultation. It will also enable us to play a major part in Wheatley and shape the Group going forward.

You told us at the end of last year that DGHP has a strong and positive identity in our communities – and you want to build on that. You said you want to be known for making a difference, building relationships with tenants and better understanding their needs. You also said you wanted to be known for caring and listening – and that you want to be able to see the customer, not the process.

We hope that our proposals for this new way of working will give you all of this as well as more trust and freedom to deliver consistently excellent services.

Commitments to our communities

During the partnership consultation we told people that joining Wheatley would support us to do much more than we could on our own.

In particular we gave a commitment to bring forward accelerated investment in homes and communities and a significant programme of new-build homes.

We pledged to improve and expand our services with more accessible housing officers in communities and increased wraparound support for customers, including a new handyperson service.

Our proposals for a new way of working are designed to enable us to deliver on our commitments and, in fact, to keep doing more for our customers and communities.

Remember that as part of Wheatley we are growing the organisation, bringing more investment into the region and creating more jobs and opportunities for more local people.

Have your say on our future

These are proposals and we now need your views before finalising how we work together to deliver our ambitions.

This is a great opportunity to build a great future; it really is your time to excel. Please read the proposals and get involved in the conversation about our new way of working.

Empowering you

DGHP has always strived to put tenants at the very core of its services. But joining Wheatley means we can share experience and expertise with the other partner organisations in the Group to do even more than we ever could before.

All the partners in Wheatley are united by a relentless ambition to deliver excellent customer service – and there are now opportunities to work together with our Wheatley colleagues to push the bar on what we do.

In this, the next stage of our journey to excellence at DGHP, we want to ensure we have a truly modern organisation where, no matter where you work, you are trusted and empowered to play your part in delivering services which are tailored to the needs of our customers – and in their best interests.

We want an organisation where all of you are in the right place, with the right roles, responsibilities and support, to make that happen.

Through our conversations with you at the end of 2019 you told us you wanted to be empowered to make a real difference – and have accountability – for all our customers. You said you wanted to work as one team, in collaboration and with no silos.

You also told us you wanted to work in a culture where there was trust – at all levels – and where we grow and develop people; enable others to achieve and influence; and encourage autonomy. And ultimately you wanted to be the best – with confidence and the ability to challenge yourself, and those around you.

Our proposals for a new way of working aim to create an environment that would help you do all of this and inspire you to excel and go the extra mile every day.

Under our proposals, our frontline colleagues would have more responsibility to make decisions for customers at the first point of contact and our colleagues in support services would be better able to support those on the frontline to deliver.

This would –

- Help build trust and stronger relationships with our customers
- Achieve unique and personalised solutions based on customer needs
- Help make accountability clearer for everyone and
- Reduce bureaucracy, working in silos and unnecessary escalation.

We are already well on our way on this, the next stage of our journey to excellence. This proposed new way of working, which you can read more about here, would help us all build on our achievements of the past and create an organisation which puts customer excellence at its heart.

This is our moment. It's time to excel ...for our customers, our communities, for our organisation and for Dumfries and Galloway.

Our new way of working – our aims

Through these proposals we want to:

- Increase the proportion of staff dealing directly with customers
- Speed-up decision making by empowering customer-facing staff
- Establish a 'Think Yes' culture and support staff to make decisions based on the right thing to do for customers
- Remove duplication and escalation – speeding up, and enhancing, the customer journey
- Create a common purpose and organisational clarity
- Know our customers, understand their needs and set them up to succeed
- Re-focus manager roles on supporting and empowering staff to make the right decisions
- Enable staff providing support services to work closely, and more directly, with Wheatley Solutions
- Encourage staff to tap into the resources in the wider Group and to share expertise, knowledge and experience
- Allow our staff to develop and grow through ongoing training and development.

Supporting you

The proposals offer a range of new opportunities. Some posts will change and new ones will be created. However, there will be a role for everyone.

In some cases, there will be no change to roles other than who you report to and the even greater emphasis on working collaboratively to deliver excellent customer service.

We know change can cause uncertainty. However, be reassured that we remain committed to a policy of no compulsory redundancies. Where staff are displaced, they would be either matched into new roles or offered preferential interviews and support to secure a new post.

There will also be new opportunities for people, both within DGHP and in the wider Wheatley Group, as we go forward. This will bring enhanced career opportunities as well as greater learning and development. There may also be limited opportunities for people to take voluntary redundancy or early retirement if that suits them and the business.

Training and development

We are committed to ensuring every member of staff has the support they need to do the best job they possibly can for our customers. Everyone who moves into a new or different role will be given support, training and development. We are also working on plans to introduce a Wheatley Academy which would provide facilities for training, development and events and to give staff access to MyAcademy, an online training portal which provides a wide range of modules to help people build their skills, knowledge and confidence.

Leadership roles

Empowering customer-facing staff to be the decision-makers means we are proposing to have fewer layers of managers than we would traditionally. This is to help create an environment that inspires and enables staff to do the right thing for customers at the first point of contact.

Leaders' roles will instead be refocused on key areas of priority – for example repairs, investment and local housing services – and leaders will support, enable and coach their teams. They would remove barriers getting in the way of frontline staff delivering excellent services and build people's confidence to do the right thing. All leaders in our new way of working will have access to a leadership programme to help them develop their skills in these areas.

Keeping it local

During our earlier discussions, you told us the teams working in our communities should be more joined up so they could work more closely together, take ownership of the customer's journey and ensure an excellent service.

As a result we are proposing to reorganise the way we deliver services to communities.

We plan to create two housing teams – one delivering in DGHP Central and East (Nithsdale, Annandale and Eskdale) and the other in DGHP West (Wigtownshire and Stewartry). Each team will be made up of housing officers, community engagement officers and a business support officer. Each will be supported by a Head of Housing who will have responsibility for supporting staff to deliver joined-up services for their communities, focused entirely on customers.

Housing services

Having listened to your feedback, we believe staff delivering housing services at DGHP should be truly focused on outcomes for customers, taking ownership of issues and interactions from start to finish. This will mean shorter, simpler customer journeys.

That's why we want to introduce the role of housing officer. Each housing officer will have a patch of around 200 homes, among the smallest patch sizes in the UK. They will spend most of their time out in their community, dealing directly with customers and working side by side with other colleagues such as our repairs staff. They will manage relationships with customers, listen, build trust and resolve – with the support of their colleagues – a wider range of issues than ever before.

As well as dealing with day-to-day matters, such as letting homes, tenancy management and rent arrears, they will also be able to draw on a range of specialist, or wraparound, services to give support to individual customers when they need it. This would include advice on money, welfare benefits and fuel bills and tenancy support where a tenant is at risk of losing their home.

These new housing officers, with a focus on owning the customer journey, are central to our proposals for delivering excellent services. As a result there will be 54 housing officer posts across the two teams, a significant increase in the staff dealing directly with customers in communities.

Community engagement

As part of our commitment to give tenants a stronger voice in what we do and a say in shaping local services we are creating three new community engagement officers. They will support housing officers to organise local events and establish new ways for people to engage.

Wraparound services

Wraparound services, which our housing officers can draw on to support their customers, are also key to our new way of working. We propose to bring these wraparound services together and integrate them with housing services.

Our new Handyperson Service, which will help older people with odd jobs round the home, will also be part of this team with four new Handyperson roles and an admin officer.

The wraparound services staff will work closely with all their housing officer colleagues and will be supported by the DGHP West Head of Housing. A range of other support will also be available for customers through the Wheatley Foundation's programmes.

Innovation and continuous improvement

Our aim is to put as much resource as possible into roles which directly support the customer. We are proposing to create two new roles which would analyse the customer experience, help us understand feedback and support our drive for continuous improvement. These new roles – Innovation and Improvement Manager and Innovation and Improvement Co-ordinator - would report to the Head of Housing in DGHP West.

Customer Service Centre

Customers who get in touch with us by phone would continue to contact the Customer Service Centre on 0800 011 3447 as before. Our advisors have an excellent track record of taking ownership of a range of customer enquiries, resolving issues (where they can) at the first point of contact. In our new operating model, our CSC advisors would continue to be empowered to be decision makers using their extensive knowledge of the organisation. This provides a reliable and immediate point of contact by phone for our customers.

By working closely with the Customer Service Centre at Wheatley, the service will in time be extended to meet customer needs 24/7 and 365 days a year.

Repairs, investment and new-build

We want all our homes to be warm, dry and comfortable well into the future. Our repairs staff, working closely with our housing officers, are key to ensuring this happens. As you know DGHP is introducing an in-house repairs service which means we will move away from a client/contractor relationship. This will enable us to work together to put a total focus on delivering excellent customer service.

In addition, there will be more flexibility around the operatives in terms of their time and having the right materials to complete works right first time. There will be improved communications and information around each job as well as text alerts for customers ahead of the operative arriving. There will be 24/7/365 coverage for customers in partnership with Wheatley.

Alongside our improved repairs service we will also be delivering on our commitments for accelerated investment in our existing homes and on a significant new-build programme.

We are increasing the number of roles across our Repairs and Investment and Assets teams to allow us to fast-track this work in our communities. Some new roles will be created while other roles will change. This is to ensure our technical staff are all in the best place to deliver on our investment priorities.

The repairs and maintenance staff will be led and supported by a new Head of Repairs and Maintenance and the investment and assets staff will be led and supported by the Head of Investment and Assets.

Support services

Our support services have a crucial role in supporting frontline colleagues to deliver services for customers. We want all our support teams to be able to use their specialist skills and knowledge to give frontline colleagues the services they need to make a real difference to our customers and communities.

Through our new way of working we aim to create an environment where support services can work much more closely with frontline colleagues, better understand what they, and customers, need and continually improve their services.

We would still have teams based locally providing support services and reporting to our Managing Director. However, these teams would also work closely with their colleagues in Wheatley Solutions so that experience and expertise and resource is shared to best support frontline teams, DGHP as a business and the wider Group.

Have your say on the proposals

Please give us your feedback on the proposals by Monday, 24 February, 2020. Your views will help us make the final decisions on our new way of working.

Have your say -

- through your manager
- through HR
- by email timetoexcel@dghp.org.uk

Questions

We will try to answer any questions you have. You can ask a question via your manager, HR or by emailing timetoexcel@dghp.org.uk

Support for you

We believe the new way of working would offer people some great opportunities. However we know change causes uncertainty. Please remember that if you are displaced, you will be matched into one of the new roles or be supported through a preferential selection process. If you are feeling worried or concerned about how the new way of working might affect you, please talk to your manager.

To see more detail including the proposed organisational charts and job profiles for new roles, please go to the staff intranet.

Report

To: - **Wheatley Housing Group Board**

By: - **Olga Clayton, Group Director of Housing and Care**

Approved by: - **Martin Armstrong, Group Chief Executive**

Subject: - **Group Integration Update**

Date of Meeting: - **19 February 2020**

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1. Purpose

1.1 This paper provides the Group Board with an update on the proposed transfer of Barony's housing stock and care services and seeks agreement to conclude necessary arrangements.

2. Authorising context

2.1 Under the Group Authorise/Manage/Monitor Matrix, the Board has responsibility for approving group wide strategic initiatives. Creating a single care vehicle is considered strategic as it will redefine our approach to care and change the group structure.

3. Risk appetite and assessment

3.1 The possible integration of Barony and Loretto Care in a single care organisation is covered by various categories in the risk appetite framework, namely regulatory, board governance and laws and regulation. Our risk appetite in each of these areas is "minimal". This level of risk tolerance is defined as "preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward".

3.2 Our approach throughout has reflected this risk appetite with external advice brought in where necessary and in-depth engagement with stakeholders including Boards and staff.

4. Background

4.1 Growth in our group over the past 5 years has seen us successfully develop considerable care expertise through Loretto Care and Barony, and demonstrate that we can work for tenants of organisations; no matter their size through having subsidiaries as different as Barony and GHA. The 2018 governance review recognised our considerable success and also the opportunity to achieve yet more for the people we work for and tenants through considering our group structure and the subsidiaries that make it up. In particular, there was general acceptance 'that combining the two [Barony and Loretto Care] care operations would be a sensible reduction of complexity, and a way to gain stronger governance and some operational efficiencies'. Wider consideration of the value of a single care vehicle, identified it had the potential to do much more including:

- providing a platform from which to become Scotland's leading care organisation by 2025;
- growing our influence so as to shape strategic and commissioning decisions;
- further develop our integrated Group value proposition;
- balancing our purpose with the requirements of a sustainable and commercial business, divesting where appropriate and managing sector challenges such as recruitment and retention;
- diversifying revenue streams so we are less dependent on traditional commissioning models;
- mainstreaming effective tenancy supports across Group;
- strengthening input into wide group priorities through better collaborative working for example on complex case management with Wheatley 360 and Wheatley Foundation; and
- building on our WE Care model for SDS market; Housing First and Alliancing.

4.2 The governance review also noted that 'such a combined care vehicle would be a subsidiary of Wheatley Group, rather than a subsidiary of a subsidiary', and that 'such an approach would be seen as an affirmation of the Group's commitment to maintain a continuing presence in the care field'.

4.3 While the governance review focused on Loretto Care and Barony's care activities coming together, it also provided a catalyst to consider consolidation more generally, where it might provide strategic, financial or operational advantage, and benefit customers. A particular consideration was Barony following the creation of a single care vehicle, as it would be a small housing only RSL with stock dispersed across six local authority areas in east-central Scotland.

4.4 The Board agreed that we should work to create a single care vehicle at its February 2019 meeting and that we should consider transferring Barony's housing stock to WLHP and Dunedin Canmore. Doing this would benefit tenants through a specific transfer proposal that included a rent cap of 2% for 3 years and accelerated investment. This proposal and key steps were discussed with Loretto Housing, Loretto Care, Dunedin Canmore, West Lothian Housing Partnership and Barony Boards at appropriate stages and all have agreed elements that are relevant to them.

4.5 Our overall approach to creating a single care organisation and the proposed transfer of Barony housing stock involves:

- Creating a single care vehicle including in-depth engagement with people we work for, staff and stakeholders;
- Making necessary governance arrangements between Barony, Loretto Housing and Loretto Care to create a single care organisation, and this organisation becoming a direct subsidiary of Wheatley Housing Group;
- Taking forward the stock transfers to WLHP and Dunedin Canmore; and
- Implementing necessary business and operational infrastructure change to make the changes above work in practice.

4.6 All elements are on track with progress discussed below.

5. Discussion

5.1 Establishing a single care company has had two distinct phases. Phase one focused on:

- Securing final consent from respective Boards to the transfer of Barony's care activities to Loretto care – the agreed corporate entity for the single care company;
- Scoping future governance arrangements; and
- Establishing one leadership team across East and West through restructuring Care Management Team, Senior Management Team and care central support functions where required.

5.2 Following appropriate legal input and due diligence on Barony's care activities, a Business transfer agreement (BTA) was approved at the Loretto Care and Barony Board meetings in August 2019. Governance arrangements were scoped and are currently being finalised with the Board members for the new care organisation already identified.

5.3 Restructuring Care Central Management Teams and Central Support Services across both Loretto Care and Barony has created a new single structure and led to an external recruitment campaign for key senior roles for the first time in over 20 years. The response was overwhelmingly positive in volume and calibre of candidates.

5.4 Phase 2 has focused mainly on communicating and engaging with staff, people we work for, stakeholders and the regulator to ensure that key messages were relayed appropriately and individuals are involved in the development of the new Organisation.

5.5 Throughout August and September there were 18 Care Roadshows for staff facilitated across all geographical areas. Over 400 staff attended these roadshows across west, central and east Scotland. The forums were used to engage directly with staff to answer any immediate questions they may have and discuss the proposals and implications in full.

5.6 Additionally, the forums were used to start dialogue around the future and to seek the views on a number of things including values and branding. These initial conversations, as well as subsequent engagements have been very positive. As well as focusing on what the changes meant for staff individually and collectively as teams, staff were specifically keen to understand the impact of the changes on the people we work for.

5.7 Staff acknowledged the importance of building on the excellence and individual cultures of both Loretto Care and Barony and bringing the best of both together. They recognised the opportunity to review our values to develop one set with many voicing that Group values resonated with the care partners' aims, objectives and purpose and that this was an opportunity to harmonise with other partners in Group.

5.8 People were particularly interested and excited about the new brand with people resolute that the existing brands cease to exist while suggesting that we utilise the strength of the Wheatley name. Staff in particular were vocal about the new identity noting that the Wheatley brand was already synonymous with Loretto Care and Barony identities and as such familiar to the diverse range of customers. The Communications and Marketing Team have taken staff views into account when developing Wheatley Care as the brand for the group wide care organisations. Appendix 1 provides the brand identity, which will apply to all care related activities in the group from 1 April 2020. Therefore, from 1 April 2020 all care related activity will be under the **Wheatley Care banner** including communication with stakeholders.

5.9 Ensuring that Barony and the Loretto Care names have enduring legacies after the transfer to WLHP and Dunedin Canmore is complete and Wheatley Care is launched, will be important for staff who have contributed so much over the years, and for Board members and others that created Barony and made it a success.

5.10 As such we plan, over the next month or so, to develop proposals for the Barony and Loretto Care Boards to consider on how the Barony and Loretto Care name and values should continue. Possible examples include creating a bursary for the benefit of young people leaving care, using the Barony name as part of future new build developments for the benefit of those with particular housing needs and capturing key moments in the history of Loretto Care through art or photography.

5.11 Care staff are currently working with colleagues in The Academy to develop an appropriate change programme which will support staff over the next 12 months as the new company is established. This will initially focus on the culture and values and getting to know and understand the Care footprint and the diversity of services across the business so that people feel part of and are engaged with the new Organisation. A specific focus of the programme will be on maintaining and enhancing our reputation, organisational improvements and local practices and systems that we need to change to ensure we operate fully as Wheatley Care.

5.12 A crucial element of phase 2 was harmonising and consulting on terms and conditions across Loretto and Barony in preparation for the new Care Organisation; streamlining job roles and creating consistent team structures for the 750 care staff. This has resulted in a significantly enhanced set of terms and conditions offered for Barony employees and an improved set of terms and conditions offered to Loretto Care staff.

5.13 Formal staff transfer, or secondment arrangements to the new Care Organisation will not commence until the 1st of April 2020, however enhanced terms and conditions have been implemented for Barony following consultation.

5.14 Formal contact has been made with all relevant chief officers for the Local Authorities ("LAs") and Health and Social Care Partnerships ("HSCPs") we work within. Further contact is underway to ensure our plans and the implications have been fully communicated and to secure the agreement we need from applicable HSCPs and LAs to the transfer of contracts from Barony to Loretto Care. No issues have been raised to date and we anticipate necessary arrangement being made over the next month or so.

5.15 Throughout November and December, we engaged with people we work for to discuss the proposals and the implications. Communication and engagement has been driven by our knowledge of individual needs at a local level.

5.16 For people supported by Loretto Care letters were hand delivered by service teams and discussed in full. Outlining the opportunities and giving reassurance that their high quality support will continue and that the people in the service providing support will not change as a result of the proposals.

5.17 Engagement with the people we work for in Barony has been more bespoke and intensive. As well as main stream tenants Barony has many tenants who also receive care and support. As such, communication and messaging has been tailored to each individual situation in respect of their support needs, tenancy status and whether the individual as a tenant was or was not eligible to vote in the ballot in respect of the stock transfer.

5.18 Engagement with the people we work for will continue throughout the coming months as we establish the new organisation with a specific focus on building on our approach to engagement and growing the number of Advisory Groups for people we work for to shape and inform our organisation.

5.19 Discussions with the care regulator, the Care Inspectorate, have been ongoing since August 2019. The Inspectorate has indicated that we can expect to be able to transfer Barony care services to Loretto Care around 1 April 2020 once Barony care services have been cancelled and registered as new services with Loretto Care. Additionally, we have engaged with Disclosure Scotland and the Scottish Social Services Council to ensure that we comply with other legislative and regulatory requirements. No issues have been highlighted to date.

5.20 With a projected annual turnover of £19,982,000, the new care organisation will support approximately 10,000 people per annum across 9 local authority areas; Renfrewshire, Glasgow, South Lanarkshire, North Lanarkshire, Stirling, Falkirk, West Lothian, Edinburgh and Fife.

5.21 Currently there are 30 Services across Care which are comprised of 20 Local Authority Contracts, 2 internal contracts and 3 grant funded projects including Housing First. There are 750 care staff in post across the business to deliver on these contracts.

5.22 Loretto Housing, as the parent of Loretto Care, has agreed the changes to Loretto Care's Articles of Association that will enable Wheatley Housing Group to become the parent company. Once these changes are registered, Wheatley Housing Group will apply to become the parent member and Loretto Housing will resign its membership.

5.23 Loretto Care has also already concluded due diligence on Barony's care activities and the terms of a transfer agreement for the proposed transfer for the care business with Barony. Separate legal advice has been received by Loretto Care and Barony to help ensure that their interests and priorities are met. At the time when the transfer of care activities is concluded, we will also effect the transition to the Wheatley Care name.

5.24 Timing of each of the above steps will depend on other aspects of the on-going Barony restructuring with the care transfer having to happen before the Transfer of Engagements (TOE) to Dunedin Canmore discussed below.

5.25 Following Wheatley Care being established then we can proceed with the proposed transfer of Barony's housing stock. This involves 1) the transfer of Barony properties in West Lothian and Bo'ness to WLHP and 2) a TOE from Barony to Dunedin Canmore which will include its stock elsewhere as well as any remaining Barony assets and liabilities.

5.26 Following the transfer of Barony stock, Dunedin Canmore will increase its holding by 131 properties with an additional value of £6.0 million. West Lothian Housing Partnership will increase by 215 to 749 properties with an additional asset value of £9.7 million.

5.27 To support the proposed transfer, a detailed proposal on the implications for tenants was developed. This included:

Aspect	What's proposed
Investment	Accelerate and additional investment of up to £1 million to address identified need in properties
Rents	Rents increases capped at 2% for next 3 years
Services	No change, customers will continue to enjoy the same high quality housing and care services they have currently
Landlord capacity/coverage	Increased ability to meet customer needs locally through becoming part of larger organisations with more presence e.g. WLHP's office in West Lothian, existing Dunedin Canmore properties in Fife and office in Edinburgh
New build	Creating capacity for an additional 250 units

5.28 In-depth, engagement and consultation took place with tenants on what was proposed and the transfer more generally last year. As part of this, Tenant Participation Advisory Service (TPAS) were available throughout to provide independent advice to tenants. Our tenant engagement included a ballot of tenants, that was conducted independently by Civica ERS, between 20 November 2019 and 19 December 2019, in line with legislative requirements on potential transfers.

5.29 Overall, 51.9% of eligible tenants (being those with Scottish secure tenancy) voted in the ballot, with 83.6% of those tenants voting in favour and 16.4% against. The table below provides a breakdown in terms of which subsidiary the tenants would transfer to.

	Yes	No	Turnout
Tenants transferring to WLHP	87.9% (102)	12.1% (14)	51.6% (116)
Tenants transferring to Dunedin Canmore	69.4% (25)	30.6% (11)	52.9% (36)

5.30 Following the successful ballot, a transfer agreement is being agreed between Barony and WLHP. This agreement includes details of the stock that is transferring along with associated liabilities and obligations. Once the transfer from Barony to WLHP is complete, WLHP's position as a strategic partner in the council area will be strengthened significantly through having almost twice its current asset base and staff resources, increased financial capacity for new build development and a wider range of housing through the more specialist accommodation provided by Barony.

5.31 Going forward a particular priority will be on ensuring that the expanded capability and capacity in WLHP is understood among stakeholders and that these are used fully to achieve local customer and stakeholder priorities. A first step in this will be WLHP 2020/21 business plan which will include the transfer from Barony.

5.32 As indicated, the transfer to Dunedin Canmore will be through a TOE rather than a transfer agreement. Taking this approach, will amongst other things, provide a route to the eventual winding-up of Barony. Timing for the TOE will follow the other two transfers (i.e. care to Loretto Care and Barony's West Lothian stock to WLHP). This is to ensure that only assets and liabilities intended for Dunedin Canmore are transferred through the TOE. The TOE will require two special general meetings of Barony members, and a Board meeting by Dunedin Canmore to agree the transfer.

5.33 We anticipate that the TOE will take place around financial year end. As with the transfer to WLHP, taking on customers and stock from Barony will change Dunedin Canmore. This will include operating over a wider geographic area in east central Scotland and, most significantly the management and responsibility of Dunedin Canmore's care activities to the new care organisation ensuring one consistent approach to care provision and growth across the Group.

5.34 As part of the transfer from Barony, alternative pension arrangements have been put in place for the staff who will move to other group subsidiaries. These arrangements include the transfer of Barony's existing Lothian Pension Fund to Strathclyde Pension Fund, and creating a new SHAPS section for Barony employees in SHPS at present.

5.35 The transfer from Lothian to Strathclyde is ground breaking and mitigates an on-going risk for Barony of pension deficit crystallisation as a result of its Lothian scheme being closed due to falling membership. Work to complete this pension transfer concluded successfully, as planned on 31 January 2020.

6. Key issues and conclusions

6.1 The proposed transfer of Barony's care activities to Loretto Care, and the transfers of its housing stock to WLHP and Dunedin Canmore is progressing to plan. Necessary arrangement for the care transfer are in hand with the various subsidiaries involved agreeing necessary transfer arrangements and governance changes. Tenants transferring from Barony to WLHP and Dunedin Canmore have voted in favour and the boards involved have agreed the mechanism through which the transfers will take place.

7. Value for money implications

7.1 The proposed transfer of properties from Barony to WLHP and Dunedin Canmore is expected to positively impact our investment in homes value driver through accelerating improvement works for tenants in homes that transfer from Barony.

7.2 Establishing a single care vehicle is expected to bring value for the people we work for through making our care offering stronger. Giving us the size and scale to better respond to the challenges of the future. Most important of all, it will enable us to keep delivering truly personalised services which support people to be part of their community and get the most out of their life.

8. Impact on financial projections

8.1 The impact of the proposed transfer from Barony has been assessed previously on the current Loreto Care, WLHP and Dunedin Canmore business plans. No Issues have been identified as work has progressed to adversely impact the positive impact of the transfers presented previously.

8.2 All applicable business plans for 2020/21 are being updated currently to reflect the proposed changes being in place for the start of that financial year.

9. Legal, regulatory and charitable implications

9.1 Separate legal advice has been sought and due diligence undertaken on the Care and Housing transfers, and no issues have been identified of significance to call into question what is proposed.

10. Partnership implications

10.1 Partners, including care service commissioners, the care inspectorate and the SHR have been kept informed throughout and we are working with them, as necessary, to conclude the aspects of the transfers that are applicable to them.

11. Implementation and deployment

11.1 Establishing Wheatley Care and the various proposed transfers requires decisions from particular Boards in our group. The table below highlights recent and upcoming key milestones.

Board	Decision sought	Status
Loretto Housing	To note progress and to agree the necessary constitutional steps that will transfer Loretto Care from being its subsidiary to being a Wheatley one	Agreed - 10 February
Loretto Care	To note progress and the identity of the care vehicle (Wheatley Care), and to confirm the transfer to it of Barony care activity	Agreed - 3 February
WLHP	To note progress including ballot result and to agree the Transfer Agreement of applicable Barony housing stock, assets and liabilities to it.	Agreed - 5 February
Dunedin Canmore	To note progress including ballot result and the process for the transfer of engagements to it from Barony which will include the need for a DC Board meeting to accept the transfer	Agreed - 6 February
Barony	To confirm the transfer of care activities, agree the Transfer Agreement with WLHP, agree the process for the TOE to Dunedin Canmore, approve the submission to OSCR of an application to wind-up the charity	Board meets 13 February - Verbal update to be provided at meeting if any issue

11.2 In parallel with this, work is on-going in preparation for establish Wheatley Care and the transfer of tenants from Barony to WLHP and Dunedin Canmore. Key activities, are progressing to plan and include:

- Updating staff contracts and personnel systems;
- Developing a new Care Policy Framework;
- Retiring the Barony and Loretto Care brands across our estate and in the various ways we communicate with people we work for and tenants including website, social media, newsletters, correspondence, service literature;
- Launching Wheatley Care as the brand for all care activities in the group from 1 April 20202 including with its own literature, website and social media presence;
- Making system changes so the Barony stock is reflected in the Dunedin Canmore and WLHP asset base, and tenant are correct assigned through i-world;
- Updating procedures at the customer Service Centre;
- Making changes to banking arrangements;
- Changes to covalent, Boxi and performance management to ensure that information that was provided previously for Barony is reflected appropriately as part of the single care vehicle, WLHP and Dunedin Canmore; and
- Transitioning customer to the Dunedin Canmore and WLHP web self-service environment.

12. Equalities impact

12.1 The particular needs of individual tenants and people we work for has been considered and support provided through Housing Officers, Care staff and TPAS, as part of the consultation and engagement process.

13. Recommendations

13.1 The Group Board is asked to:

1) note progress in developing our single care vehicle, Wheatley Care, and the transfer of Barony's housing stock;
2) confirm and agree that the necessary steps are taken to effect the integration outlined in this report; and
3) delegate authority to any of the Chair, Vice-Chair or Group Company Secretary to submit a letter of application to become the parent of Loretto Care (Wheatley Care).

List of Appendices

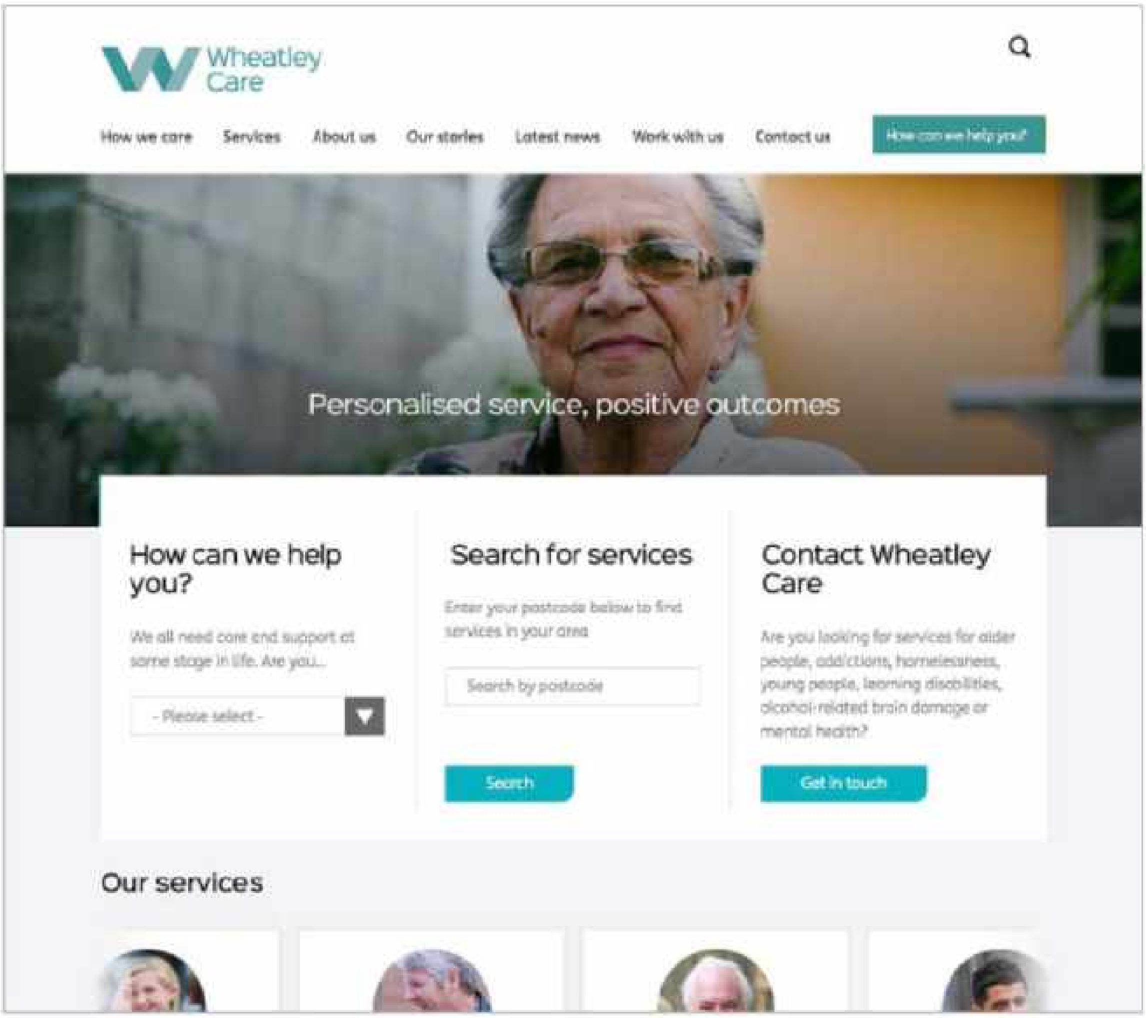
Appendix 1 – Wheatley Care identity

Appendix 1
Wheatley Care identity

Logo

Wheatley
Care

Website



Report

To:- Wheatley Housing Group Board

By:- Tom Barclay, Group Director of Property and Development

Approved by:- Martin Armstrong, Group Chief Executive

Subject:- Group Repairs & Maintenance Policy Framework

Date of Meeting:- 19 February 2020

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1. Purpose

1.1 The purpose of this report is to :

- Seek approval of the Group Repairs & Maintenance Policy Framework;
- Recommend, the adoption of the policy framework by all landlord and factoring Group Member Organisations and preparation of their own tailored Repairs & Maintenance Policy Frameworks, for approval by their board.

2. Authorising context

2.1 Under the Group Authorising Framework (GAF) and Intra-Group Agreement (IGA) the Wheatley Board is responsible for approving Group Policies. Subsidiaries are responsible for the implementation of group policies.

3. Risk appetite and assessment

3.1 The Group's risk appetite relating to Repairs and Maintenance is "Minimal" i.e. preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward. The risk tolerance of individual subsidiaries relating to Repairs and Maintenance is "Minimal".

3.2 Risks relating to repairs and maintenance are set out the relevant Group subsidiary risk registers. In addition, for Group RSL members' statutory requirements for compliance e.g. gas servicing are embedded in the Scottish Housing Regulator reporting requirements.

4. Background

4.1 During the first five years of Wheatley, we have clearly demonstrated that together, we are creating a stronger more secure future. In this time, the group has grown dramatically both in size and diversity, including a range of different landlords, offering services to a more diverse customer base. We spend over £40m per year repairing and maintaining our properties, meaning repairs costs are second only to our staffing costs and therefore one of the most important areas of service delivery.

4.2 The Assurance Team reviewed the Group's approach to Repairs in 2018. Their review identified that there was not a consistent documented approach to Repairs & Maintenance across the Group and recommended that a Group Policy Framework should be developed. The proposed Group Repairs & Maintenance Policy Framework will address this audit point.

4.3 Subsequently, following a presentation to the Group Board in August 2019, we launched our 'My Repairs' approach to service transformation. As part of the approach it was recognised that a strong policy framework should be in place to support the service transformation across all Group Subsidiaries, signalling our aim to shift the balance in favour of planned maintenance and reducing reactive repairs.

4.4 Due to the significance of the repairs on the groups' overall expenditure alongside the growth in diversity of the group, not least of which includes the recent integration of DGHP into the group, a new Executive Team post of *Group Director of Assets & Repairs* has now also been created to ensure this crucial area of service delivery for our customers is given the specialist dedicated management, monitoring and continuing service development focus it now requires.

4.5 Aligned to this to a Group-wide approach to repairs, which reflects the different customer segments, property types, tenures and geographies we cover has now also been developed. Our different customer segments now require tailored solutions in the repairs service they receive for example, those in mid and full market rent are more likely to be in work and therefore want a service that they can access outwith their core working hours. Younger customers, across all tenures increasingly want a repairs service that they can access digitally that keeps them informed of progress without having to use traditional telephony to access the service.

4.6 Our asset base has also increased in diversity over recent years with more diverse property types including:

- A more diverse range of core housing stock;
- Increasing numbers of new build stock;
- More care properties; and
- A larger number of corporate and commercial properties.

4.7 Alongside this our geographic footprint has expanded to cover 18 local authorities, 56% of Scotland's local authorities. Most notably the addition of Dumfries and Galloway to our footprint has dramatically changed our operating environment, covering an additional 6,427 km2, presenting new challenges in service delivery.

4.8 The method of delivery of our repairs service has also changed with the growth of the group. Our joint venture with City Building now well established, shifting service delivery in the West from a traditional client /contractor relationship to a partnership approach to service delivery, with a shared culture and common goals.

4.9 Likewise our in house repairs service in the East in Dunedin Canmore is now well embedded and we are in the process of establishing a bespoke in house service in DGHP, to deliver services in the South.

4.10 The implications of having three repairs delivery vehicles, along with the changes in our customer segments, diversification of our assets and expanding geographical footprint, now requires to be reflected in our Group Policy Framework. The Group wide policy will set the platform for DGHP's repairs service within Group from 1st April 2020.

5. Discussion

5.1 Through our 'My Repairs' approach, as set out in the Group Strategy 2020-25, our ambition is to transform the service from excellent to outstanding, but most importantly that it is a customer-led repairs service, through our :

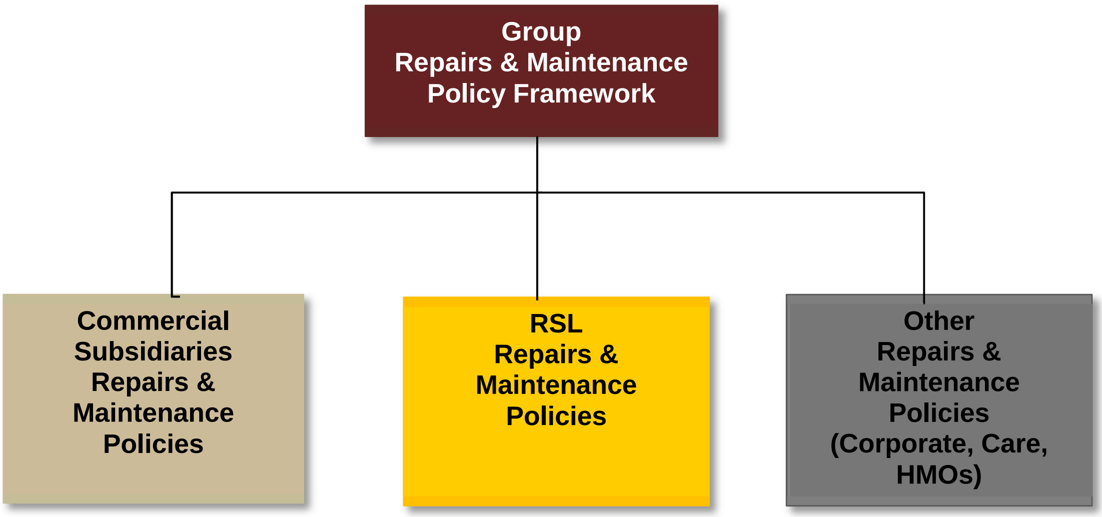
- You Choose Challenge;
- Voice of the customer' technology;
- 'How to' videos;
- Shopping Basket digital experience;
- Customer Insight Panel for Repairs; and
- Wheatley Peer Ombudsman Panel.

5.2 Our 2020 - 2025 service will deliver on customer priorities, becoming increasingly tailored to meet the particular needs and expectations of different customer groups. More importantly, customers will have more control and choices over their service delivery and have a service which is built around them.

5.3 The forthcoming Group Asset Delivery Plan 2020-25 will highlight repairs and maintenance as a core part of offering homes to customers which are good quality, are safe and secure and reflect their changing needs. Initially we will be focussing on changing the dynamics within the repair service by reducing no access, reducing the number of emergency repairs, and translating some previously classified emergency repairs into next day appointments. All these changes are designed to deliver both customer and business value.

5.4 In addition to these initial changes, over the next five years we will increasingly use predictive analytics to inform a more intelligence-led repairs and maintenance service, which will both enhance customer convenience and improve efficiency in asset management. Our ambition is shared by all parts of the business which touch the repairs service. Everyone from housing officers, Lowther letting and factoring staff, customer service advisers, JV staff, and repairs operatives are engaged to jointly deliver the proposed benefits for our customers.

5.5 The Group Repairs & Maintenance Policy Framework has been developed to provide the structure and content for individual Group Subsidiary policies as follows:



5.6 The policy framework is intended to provide a consistent approach across Group members while giving all members the flexibility to focus on those issues which affect their customers' needs and reflect the characteristics of the properties they own and the geographic footprint they cover. The framework has been designed and built to ensure the Group has in place the measures to manage repairs and maintenance across the dispersed geography of the Group and to ensure that it is future proofed for other partners joining the Group with a range of property types and tenures.

5.7 The aim of the policy framework is to:

- Provide Efficient, effective and value for money services that meet the needs of all of all our customers, regardless of tenure, location, property type or customer group.
- Reduce the inconvenience of reactive repairs for our customers by having in place regular programmes of cyclical and planned maintenance.
- Ensure that all our customers live in a safe and secure environment.
- Provide assurance and minimise disruption to our customers while complying with relevant legislation, regulatory requirements and meeting our contractual obligations.

5.8 The key features of our Group Policy Framework are:

- 'My Repairs' approach is embedded throughout the framework, placing customers in control of the services they receive.
- Updates to include all Group members and our three service delivery vehicles.
- Repairs obligations of landlord and tenants for all tenures, leasing and management arrangements including; social rent, mid & full market rent, care, commercial, HMOs and factored home owners.
- Key staff roles and responsibilities that apply across Group are set out clearly as part of the performance and management framework.

5.9 The policy framework has been developed in conjunction with Group members, our service delivery partners and relevant Group functions in Wheatley Solutions (Governance, Property Legal, Assurance, Property & Development and Customer Services).

5.10 All existing Group members' Repairs & Maintenance policies will be superceded by new Group Subsidiary Repairs & Maintenance Policies based on the principles set out in the Group Policy framework. The Policy framework will be reviewed annually while our 'My Repairs' approach is deployed and embedded across group.

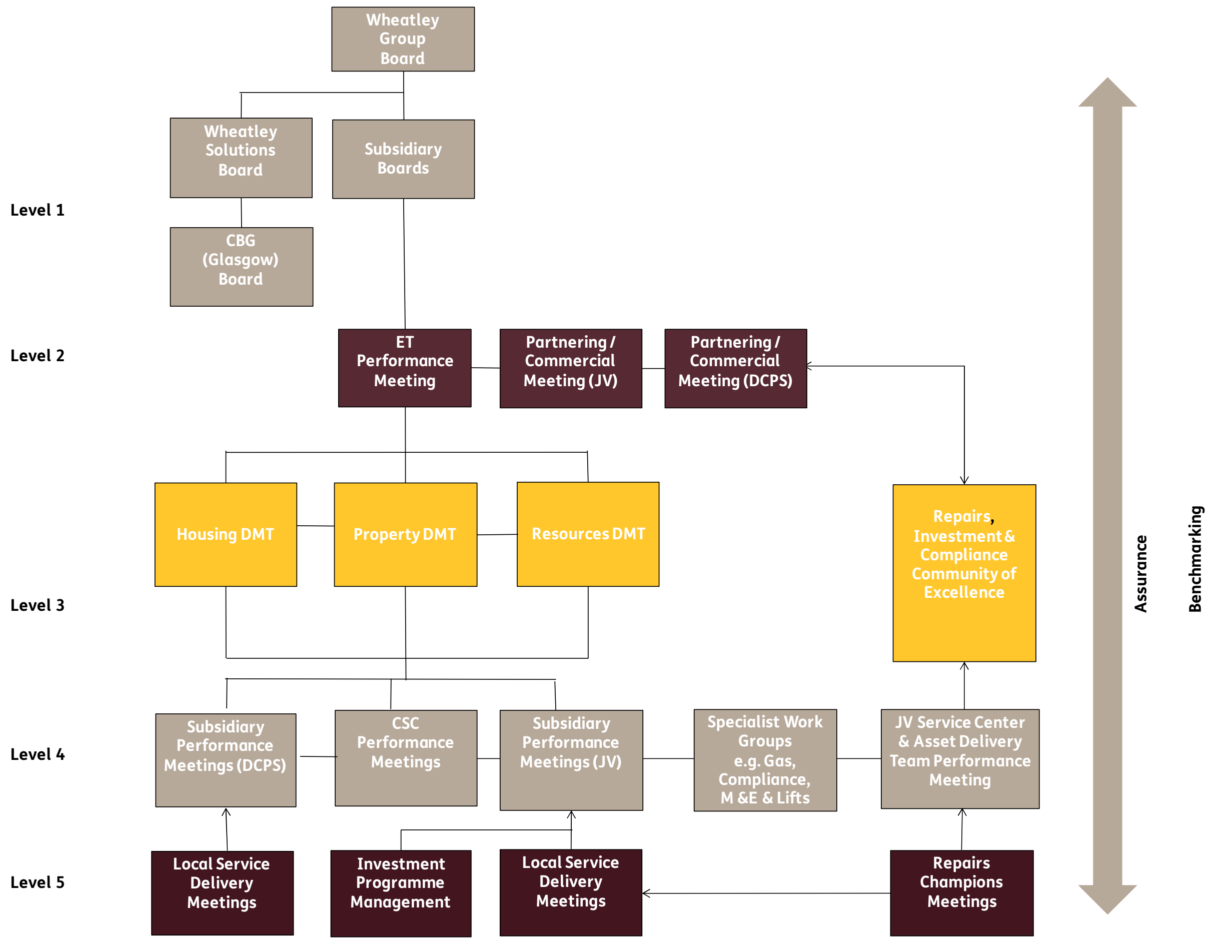
5.11 Thereafter it will be reviewed every 3 years unless the Group undertakes significant change e.g. change in legislation, new partner joining the Group or significant structural change. Individual Group Member's policies will be available on the relevant subsidiary websites.

Roles and Responsibilities

5.12 The Chief Executive has overall responsibility for repairs and maintenance for the Group. The new Group Director of Assets & Repairs will have overall responsibility for maintenance and implementation of this policy framework. They will ensure the repairs and maintenance performance management system is reviewed and implemented and report as necessary to the Group Board and individual member boards.

5.13 All Directors, including Managing Directors of Group member organisations have overall responsibility for the performance of repairs and maintenance within their organisation / business division. Each business division within the Group and its members must have a nominated member of staff with specific day-to-day responsibility for Repairs & Maintenance Management.

5.14 A performance management framework has been developed for managing performance and implementing service improvement across the Group, the structure associated with the framework is as follows:



5.15 The Repairs performance framework has been created to provide assurance at the top level and drive performance from the bottom up. The role of each level of the framework is as follows:

Level	Responsibility	Role
1	Board	Assurance
2	Group Directors	Review customer / business value Assurance Performance Management Priorities for service improvement
3	Directors	Review customer / business value Performance Management Service Improvement
4	Subsidiaries	Performance Management Customer value
5	Local / specialists	Effective delivery Customer value

5.16 New dashboards and live reporting tools have also been developed using ‘Power BI’ software to support the performance management of repairs at every level of the framework, which will be in addition to current reporting via Pentana. An overview dashboard includes financial trend analysis, no access, emergencies / appointment ratio, void analysis, adaptations analysis. In addition it includes in-depth analysis of key themes to identify opportunities to improve service and reduce costs.

5.17 The next phase of dashboard and data development will be the inclusion of customer satisfaction and digital maturity. Over time the Repairs performance dashboards will form part of a suite of performance tools alongside new build/development, investment, compliance and locality planning.

5.18 To support innovation and best practice in repairs across the Group a Community of Excellence has been created. The COE is jointly chaired by the Director of Repairs, Investment and Compliance and the Director of Operations for City Building (Glasgow). Its aims are as follows:

- To promote excellence in the Group Repairs Service and a co-creation culture helping enable better control for our customers.
- To drive improvement, digital transformation, innovation and efficiency in repairs, investment and compliance across the group.
- To bring staff together from all parts of the group identify new thinking and innovation in repairs, investment and compliance delivery and take an overview of policy, process and practice, agreeing recommendations to ET and Boards as appropriate.
- Manage delivery and periodically review the Group Repairs & Maintenance Policy Framework.

5.19 The Repairs performance framework will be developed in conjunction with the Community of Excellence to ensure that it helps to drive service improvement.

6. Key issues and conclusions

6.1 Providing a high quality repairs and maintenance service to our customers is a core part of the Group's business. In addition to our statutory obligations we are committed to customer excellence. Customer satisfaction with our repairs service is a key factor in determining their satisfaction with us as a landlord.

6.2 Through the implementation of the Group policy framework and our My Repairs approach we will:

1. **Shift power and control to customers so that they are empowered to:**

   - Design products and services from start to finish.
   - Make their own choices about the services they want.

2. **Deliver a fundamental shift in operating model to "Digital":**

   - Roles redesigned and rebranded
   - Digital delivery the norm.
   - Multi-skilled staff specialising in digital conversations with our customers.

3. **Deliver better business value in the deployment of resources to repairs:**

   - Embed repairs analysis into our performance system.
   - Introduce predictive analytics.

- Experiment with new ways of delivering services to develop best practice.

7. Value for money implications

7.1 The implementation of the Group Repairs & Maintenance Policy Framework through and our My Repairs approach to service transformation will contribute to both customer value and business value through the following:

Customer Value	Business Value
Improved customer satisfaction	Reduced reactive repairs in favour of planned maintenance work leading to financial efficiency
Lower effort for customers to report and track and rate repairs	Reduced waste through reduction in No Access and correct diagnosis
Better access to repairs information through their online account & mobile app	Reduce costs through moving from out of hours emergency repairs to next day appointments
Shape and influence services through new technology	Improved financial planning through use of predictive analytics
Feel in control and have choices about their home through a flexible approach to delivery and technology	

8. Impact on financial projections

8.1 There are no financial implications from this report.

9. Legal, regulatory and charitable implications

9.1 There are no legal implications as a result of the implementation of the policy.

10. Partnership implications

10.1 The Group Repairs & Maintenance policy framework and its implementation are applicable to all Group Member Organisations. All Group Member Organisations will develop a Repairs & Maintenance Policy relevant to their specific customer base, property profile and geographic footprint for approval by their own Boards.

11 Implementation

11.1 The next stage of implementation is to develop tailored Repairs & Maintenance Policies for Group Member Organisations and to seek approval from their boards (phased between our May and August 2020 cycles). Once approved the Repairs & Maintenance Policies of each Group Member Organisation will be published on the relevant member websites.

11.2 The Repairs, Investment and Compliance Community of Excellence held its first meeting in October 2019 as part of the launch of the 'My Repairs' approach and will meet regularly during 2020.

11.3 The Repairs Performance Framework will be introduced into the performance cycle in May 2020 and will be implemented at all levels.

12. Equalities impact

12.1 There is no equalities impact as a result of the implementation of this policy.

13. Recommendations

13.1 The Board is invited to:

1) Approve the Group Repairs & Maintenance Policy Framework;
2) Recommend the adoption of the Group policy framework by all landlord Group Member Organisations and preparation of their own tailored Repairs & Maintenance Policy Frameworks, for approval by their board; and
3) Otherwise note the content of this report.

List of Appendices

Appendix 1 – Group Repairs & Maintenance Policy Framework

#

Making homes and live better
wheatley-group.com

Group Repairs & Maintenance Policy Framework

MyRepairs
You're in control 24/7

Policy Statement

As Scotland's largest housing and care provider, we recognise that an effective repairs and maintenance service is one of the most important services we provide to our customers.

Our new Group Strategy 2020-25 ***'Inspiring Ambition, Unleashing Potential'***, sets out our ambition is to transform the repairs service from 'excellent' to 'outstanding', by maximising control for customers and building capacity to create a truly customer-led repairs service where our customers' define what outstanding means to them.

Our 2020 - 2025 service will deliver on customer priorities, becoming increasingly tailored to meet the particular needs and expectations of different customer groups. More importantly, customers will have more control and choices over their service delivery and have a service which is built around them.

Our Group Repairs Policy Framework, establishes the Group's approach to repairing, maintaining and improving our customers' homes. Providing a value for money repairs and maintenance service, that is both responsive and of the highest technical competence, is one of our core priorities. We are committed to meeting our repairs and maintenance responsibilities and will achieve this by delivering reactive repairs and planned maintenance services which are timely, efficient, effective and convenient for all our customers regardless of tenure, property type or location.

All our repairs work will be undertaken in accordance with the Group's commitment to sustainability set out in the Group Sustainability Plan and takes account of wider economic and social impacts of the policy on individuals, households, local communities and the environment.

Our repairs policy framework is designed to ensure all members of the group provide a repairs and maintenance service with customers at it's heart, whilst ensuring accordance with best practice, legislation and regulatory compliance. Our flexible approach to delivery will ensure that the needs of our most vulnerable customers are taken into account.

We will deliver reactive repairs, planned maintenance and improvement works principally through our Joint Venture partnership, City Building (Glasgow) and our in house repairs teams in Dunedin Canmore and Dumfries & Galloway Housing Partnership. Where we do not have the required skills to complete the work or where employing a contractor demonstrably delivers better value for money, we may use Third party contractors. Our service delivery partners and contractors are expected to work within the spirit of the Group Sustainability Plan and to demonstrate their commitment to sustainability in accordance with their sustainability policies

A copy of this policy framework is available to all interested parties via the Wheatley Group and our member's websites. We will also provide this policy on request at no cost, in large print, in Braille, on another non-written format.

Signed ______________________________ Dated

Martin Armstrong (Group Chief Executive)

Contents

1. Introduction

1.1 The Wheatley Group is the largest housing, regeneration and care organisation in Scotland. We own and manage 93,000 homes and properties and are a significant asset owner with 44,000 homes, 300 commercial properties and a corporate estate of over 100 locations across central and South Scotland.

1.2 Around 10,000 people are supported by our care organisation each year, 50% of which are cared for within our RSL properties. Our care service delivery model varies dependent on customer and purchaser needs and includes accommodation based services including houses in multiple occupation (HMOs), specialist care homes and a range of outreach services.

1.2 The purpose of the Group Repairs Policy Framework is to set out the general operating principles covering all the repairs activities undertaken within the Group and will applies to all housing, care and commercial properties owned or factored by any of the Group Members. It sets out the responsibilities to manage the repairs service and the general arrangements to support compliance. Each of our Group members' own repairs policies will be based around this framework. This policy framework links other policies, plans, frameworks and strategies including:

- Group Asset Delivery Plan
- Group Sustainability Plan
- Group New Build/Development Framework
- Adaptations Policy
- Voids Policy and procedures
- Compliance manual
- Group Complaints Policy
- Group Data Protection Policy
- Factoring Policy
- Unacceptable Actions Policy
- Group Health & Safety Policy and associated management arrangements

2. Service Delivery

2.1 Our new Group Strategy 2020-25 ***'Inspiring Ambition, Unleashing Potential'***, sets out our ambition is to transform the repairs service from 'excellent' to 'outstanding', by maximising control for customers and building capacity to create a truly customer-led repairs service where our customers' define what outstanding means to them.

2.2 Our 2020 - 2025 service will deliver on customer priorities, becoming increasingly tailored to meet the particular needs and expectations of different customer groups. More importantly, customers will have more control and choices over their service delivery and have a service which is built around them.

2.3 During the first five years of Wheatley, we have clearly demonstrated that together, we are creating a stronger more secure future. In this time, the group has grown dramatically both in size and diversity, including a range of different landlords and a new care company offering services to a more diverse customer base.

2.4 Our different customer segments now require tailored solutions in the repairs service they receive for example, those in mid and full market rent are more likely to be in work and therefore want a service that they can access outwith working hours. Younger customers, across all tenures increasingly want a repairs service that they can access digitally that keeps them informed of progress without having to use traditional telephony to access the service.

2.5 Our asset base has also increased in diversity over recent years with more diverse property types including :

- A more diverse range of core housing stock
- Increasing numbers of new build stock
- More care properties
- A larger number of corporate and commercial properties

2.6 Alongside this our geographic footprint has expanded to cover 18 local authorities, 56% of Scotland's local authorities. Most notably the addition of Dumfries and Galloway to our footprint has dramatically changed our operating environment, covering an additional 6,427 km2, presenting new challenges in service delivery.

2.7 The method of delivery of our repairs service has also changed with the growth of the group. Our joint venture with City Building now well established, shifting service delivery in the West from a traditional client /contractor relationship to a partnership approach to service delivery, with a shared culture and common goals. Likewise our in house repairs service in the East in Dunedin Canmore is now well embedded and we are in the process of establishing a bespoke in house service in DGHP, to deliver services in the South from 1st April 2020.

2.8 The implications of having three repairs delivery vehicles, along with the changes in our customer segments, diversification of our assets and expanding geographical footprint, now requires to be reflected in our Group Policy Framework.

2.9 In advance of this we launched our 'My Repairs' approach to service transformation in September 2019 to support service transformation across for all Group Members, signalling our aim to shift the balance in favour of planned maintenance and reducing reactive repairs. Through our 'My Repairs' approach, as set out in the Group Strategy 2020-25, our ambition is to transform the service from excellent to outstanding, but most importantly that it is a customer-led repairs service, through our :

- You Choose Challenge
- Voice of the customer' technology
- 'How to' videos
- Shopping Basket digital experience
- Customer Insight Panel for Repairs and
- Wheatley Peer Ombudsman Panel

2.10 Over the next five years, we will work in partnership with our customers to evolve our repairs service from excellent to outstanding, giving our customers greater control over how their service is delivered, meeting the changing expectations of our customers through improved digital interaction and flexibility.

2.11 We are committed to eliminating all forms of discrimination against our customers. Therefore, we will design and deliver our repairs service to remove barriers and meet the individual requirements of the customers ensuring no customer is left behind. As part of our customer centred and tailored approach Group Members who are landlords of properties for social rent also offer a handyperson service that will carry out small repairs and minor improvement works to vulnerable customers. An equality impact analysis has been carried out on this policy and no issues were identified. We aim to:

- Promote inclusive communities where customers can live free from discrimination or harassment.
- Eliminate unlawful or unfair forms of discrimination.

2.12 We will take steps to reduce both the volume of reactive repairs and the average cost of reactive repairs we carry out. Our shift in focus from reactive to planned maintenance alongside our 'My Repairs' Initiative will help us achieve this by;

- **Building Customer Capacity**
  We will seek to nurture and support customers to adopt a 'self-help' approach were appropriate via "how to" videos and information provided through all online channels, our repairs app and through repairs conversations with housing officer and Customer Service Centre staff.

  We will develop an effective approach to ensure that tenants keep their homes in the best possible condition during their tenancy and when they leave. We will continue to promote tenancy sustainment to reduce the number of voids within our portfolio.

- **Reducing Emergencies**
  The number of emergency appointments raised will be reduced by offering customers convenient Next Day and 2 hour appointment slots at a time that suits them. In Dumfries and Galloway, customers will initially be offered 3 hour AM or PM slots in recognition of the region's challenging geography. Over time, as the service matures we plan to move to two hour slots in line with the rest of the group.

- **Improving diagnosis**
  In the East and West our new dedicated repairs team combining call handlers, City Building Planners and Operations Managers, within our central customer service centre, alongside planned improvements in our online reporting service will ensure repairs are diagnosed more accurately. Our call handlers based in Dumfries and Galloway have also undergone similar training and 'on the job' training with our trades teams to ensure a consistent approach across the group. Our housing officer, NETS and letting officer staff network will also receive specialist training so that no matter how a repair is reported, we diagnose it correctly.

- **Reducing No Access**
  We will improve communication with our customers to help reduce incidents of no access. Our planned improvements to our web self-serve offering and the introduction of a new 'My Repairs app' and reminder text messaging will help customers report, track their repair and log their satisfaction online or via a mobile app. In the East and West we will also carry out compliance work through new Compliance Trades Teams (a one stop shop for compliance events required in a customer's home) to minimise disruption to customers. We look to replicate this approach in Dumfries & Galloway as the service there matures.

- **Maintenance & Stock Condition Inspections**
  We will carry out regular preventative maintenance inspections, along with periodic cyclical programmes of works to the communal and external areas of our blocks (wholly or partly owned by partner organisations). We will target the most maintenance hungry properties with effective planned maintenance and replace key components at the end of their economic lifecycle. We will also undertake periodic stock condition surveys to support asset management and investment planning decision making. A key part of our approach will be to promote digital technology at the point of investment / life cycle replacement, when economic repair is no longer sustainable to bring both business and customer value.

- **Intelligent Material Specification**
  We will specify cost effective material specifications that demonstrate value for money in terms of quality, sustainability, life expectancy and availability both in our existing stock and in the design of our new build properties, particularly via our 'Wheatley 24' House Type Range.

2.13 Our service delivery partners across group are as follows :

- **West** Central Scotland - Our joint venture partnership with Glasgow City Council (City Building Glasgow) will continue to deliver the Group's repairs services to our group partners located in the West of Scotland (GHA, Cube, Loretto and Lowther Homes).

- **East** Central Scotland - Our in house repairs service, Dunedin Canmore Property Services, will continue to deliver the Group's repairs services to our partners located in the East of Scotland (Dunedin Canmore, West Lothian Housing Partnership and Lowther Homes).

- **South Scotland** - Our new bespoke in house repairs service in Dumfries and Galloway Housing Partnership will deliver repairs services in the South from 1st April 2020.

Thinking Yes Together

2.14 Wheatley excels at creating value for customers through personal interactions and going forward our ambition is to continue to be defined by the people in the business and the strength of our relationships with our customers, particularly our tradespersons.

2.15 The impact of 'Think Yes' has been recognised and acknowledged on the global stage, however by 2025, as a result of our '**Thinking Yes Together'** culture, our customers will feel they are leaders in their own life and our relationship with us will be focussed on helping them develop their aspirations. Where possible, customers will have a named tradesperson who will keep them informed of the progress at all stages in their repairs journey.

2.16 Our Tradespersons, who carry out repairs and maintenance on behalf of the Group, will be part of our 'Think Yes Together' cultural programme to 2025 and will have the customer at the heart of everything they do aligned with our code of conduct. This includes City Building, our South & East in house repairs teams and third party contractors. When a tradesperson visits a customer they will check that the customer is satisfied with the repair and offer any further repairs to be carried out before they leave a customer's home.

2.17 Appropriate training opportunities will be made available to all members of staff to ensure high standards of service are maintained. All staff who manage or deliver repairs on behalf of the Group will receive Health & Safety awareness training every 3 years. All staff who manage or deliver repairs will require to confirm they have read this policy, the Group Health & Safety Policy and supporting Management Arrangements (including but not limited to Gas, Fire Safety, Asbestos, CDM).

2.18 The Group's approach to managing staff health and safety is set out in the Group Health & Safety Policy and supporting Management Arrangements. All staff managing or delivering repairs activities will also be issued with all Personal Protective Equipment (PPE) relevant to their work task based on a risk assessment.

2.19 All staff who deliver repairs will receive regular toolbox talks on aspects of delivering repairs safely. This training will form part of their learning and development log.

3. Principles, Aims & Objectives

3.1 Our principles :

3.1.1 We are committed to the providing high quality homes and neighbourhoods where people want to live, work and feel safe. We aim to exceed customer expectations by ensuring our repairs and maintenance service delivery partners deliver an outstanding service regardless of location, taking account of the diverse nature of the Group across East, West & South Scotland.

3.1.2 Our emphasis is to maximise planned and cyclical maintenance and reduce demand led reactive repairs and as a result provide better convenience our customers. Our aim is to achieve a balance of **60:40** in favour of planned and cyclical maintenance which in turn will deliver value for money for our customers through cost efficiency and reducing waste.

3.2 Our Aims :

- All customers feel in **control** and **have choices** in the repairs and maintenance service they receive
- Customers live in a **safe and secure environment**.
- To **reduce reactive repairs** by having in place regular programmes of cyclical and planned maintenance.
- **Efficient, effective and value for money** services that meet the needs of all of our customers.
- **Provide assurance and minimise disruption** to our customers while complying with relevant legislation, regulatory requirements and meeting our contractual obligations.#

3.3 Our Objectives :

- We will provide services which are **easily accessible 24/7,** in a way that **suits our customers** whilst delivering high standards of customer care.
- **Working in partnership with customers** as part of our **'My Repairs'** initiative to continuously drive service improvements.
- At all times **focus on the customer** experience by delivering high standards of **customer care** and **high satisfaction rates**.
- **Our customers value our reliable, easy to access and cost effective service** that consistently delivers to our agreed performance standards.
- Our **customers understand their responsibilities** for looking after their homes.
- Keeping our customers' homes and our commercial properties in **good condition**
- Keep all installations for the supply of water, gas, electricity, sanitation, space and water heating in **good repair and working order**.
- **Maintain** entrances, halls, lifts, stairways, passageways, lighting, door entry systems and other **parts provided for common use**.
- Ensuring that **fire protection systems** and **fire fighting equipment** is compliant with legislation, regularly inspected and serviced.
- To take cognisance of the impact of the **time to achieve consent** for investment in **mixed tenure blocks** on **customer satisfaction**

Section 4 : Landlord & Customer Responsibilities

4.1 A summary of the broad responsibilities of both the group and our customers are set out in this section with reference to the legal frameworks we operate within. However, the success of Wheatley to date has involved going beyond this with the empowerment of our Think Yes approach having been recognised on the global stage. Our **'Think Yes Together'** approach for 2020-25 will build upon this by providing a supporting environment for our customers to help them develop capacity to build resilience and self reliance.

4.2 By 2025, we will introduce more control and choice for customers through our '**You Choose'** challenge' where we will crowd source suggestions and use online voting to allow customers to take decisions on repairs expenditure in relation to voids and adaptations. We will also introduce '**how to**' video guides on our websites to enable customers to do some jobs for themselves, encouraging customers to feel more in control of their home and more self reliant.

Properties for Social Rent

4.3 Our Social Landlords have a legal duty to repair and maintain our properties for social rent. We will carry out certain repairs to these properties including, but not limited to repair to:

- The structure (including chimneys, roofs, walls, floors and stairs).
- External fabric repairs (windows, gutters, downpipes, external doors).
- The plumbing system (water tanks, pipe works, stop cocks).
- Heating and hot water systems.
- Gas pipes, electrical wiring, sockets, light fittings, switches and hard wired smoke & heat detectors.
- Kitchen and bathroom fittings (cupboards, worktops, toilets, baths and basins).
- Doors and surrounds (skirting boards, facings and handles).
- Bin areas and washing poles.
- Door entry systems.
- Shared areas.
- Lifts and common stairs.
- Access paths.

Properties for Mid Market and Full Market Rent

4.4 Landlords of domestic properties for mid market and full market rent, have a legal duty to offer properties for rent which are compliant with legislation as set out in the Housing (Scotland) Act 2014. There is also a duty to repair these properties in accordance with the "Repairing Standard" as set out in the lease or the missive to let i.e.

- Property must be wind and water tight and in all other respects reasonably fit for people to live in
- The structure and exterior (including drains, gutters and external pipes) must be in a reasonable state of repair and in property working order
- Installations for supplying water, gas and electricity and for sanitation, space heating and heating water must be in a reasonable state of repair and in proper working order

- Any fixtures, fittings and appliances that the landlord provides under the tenancy must be in reasonable state of repair and in proper working order
- Any furnishings that the landlord provides under the tenancy must be capable of being used safely for the purpose for which they are designed
- The property must have a satisfactory way of detecting fires and for giving warning in the event of a fire or suspected fire
- The property must have a satisfactory way of giving warning if there is a hazardous concentration of carbon monoxide.

Care, Commercial & Other Properties

4.5 Around 10,000 people are supported by our care organisation 'Wheatley Care' each year, 50% of which are cared for within our RSL properties. Our care service delivery model varies dependent on customer and purchaser needs and includes accommodation based services including houses in multiple occupation (HMOs), specialist care homes and a range of outreach services.

4.6 Depending on the type of service that is registered with the Care Inspectorate (as well as the service delivery model) there are certain regulatory requirements that must be adhered to. As such the repairs and maintenance cycle is of significant importance to Wheatley Care to ensure it complies with regulatory and best practice standards. Wheatley Care staff offices are based in our communities, the majority of which are purpose built care office environments owned by group RSLs. Consideration will be given to the investment and cyclical repairs and maintenance required for these office environments. Unlike our externally leased properties, our care offices will be managed as part of our corporate estate, with full repairs and maintenance.

4.7 Landlords of commercial properties, Houses of Multiple Occupation (HMOs) and other domestic properties offered to third party organisations on commercial terms have a legal duty to offer properties for rent which are compliant with legislation as set out in the lease or the missive of let.

Customers of Properties for Social Rent

4.8 Under their tenancy agreements customers of properties for social rent are generally responsible for minor repairs such as repairing any minor fixtures and fittings such as curtain rails, light bulbs and plugs, small repairs like replacing keys, maintaining internal decoration, maintain and/or replacing floor coverings supplied as part of the investment programme.

4.9 We recognise that some customers of properties for social rent may need extra support to maintain independent living. Where it has been identified that a customer has a vulnerability or need that would require a prioritised response or directly impacts on their ability to carry out a repair, our '**Think Yes'** approach gives our housing staff discretion to order repairs tailored to individual customer requirements. In addition where housing staff identify customers who are having difficulties keeping their properties in good condition e.g. hoarding, they can offer additional wrap around services to support the customer to sustain their tenancy.

4.10 As part of our journey to 2025, we will encourage customers to feel **more in control** of their home and more **self reliant**. We will also introduce '**how to**' video guides on our websites to enable customers to do some jobs for themselves.

4.11 We will also encourage customers wishing to carry out work in their properties beyond their general responsibilities, provided they obtain written permission from us in advance.

4.12 We will generally grant permission if we are satisfied that :

- the work will be carried out to a sufficiently high standard, using materials of a suitable quality;
- the work will be carried out by a qualified person;
- the work won't impact on neighbouring properties; and
- the customer has obtained any necessary statutory consents

4.13 After the customer's works have been completed we may inspect the works to confirm that the works have been undertaken in line with the agreed scope and standards. We will also require a copy of any completion certification from the local authority.

4.14 Customers may be charged for repairs where a repair becomes necessary as a result of the wilful, negligent or accidental actions of the customers household.

Customers of Properties for Market and Mid Market Rent

4.15 **Lowther Homes** is now firmly established as one of Scotland's leading commercial letting and property management companies, with over 32,000 customers. Our ambition by 2025 is to shift the perception of our service so that by 2025 over **60%** of our customers would recommend Lowther to a friend or family member. By 2025, we expect our transformation to a digital led rental business to complete and be redesigned to meet the growing expectations of our customer base. A new **optional internal repairs service** will be designed to give Lowther customers more choice and control. Customer decisions to 'opt in' to this service will be based on price, quality, convenience and customer service. We will also introduce '**how to**' video guides on our website to enable customers to do some jobs for themselves.

Customer responsibilities of properties for market and mid market rent are set out in their lease or missive of let and the "Repairing Standard" (as set out in the Housing (Scotland) Act 2014). Customers are responsible for :

- Keeping the property adequately ventilated and heated
- Not bringing any hazardous or combustible goods or material into the property notwithstanding the normal and safe storage of petroleum and gas for garden appliances (mowers etc), barbecues, or commonly used household goods or appliances
- Not putting any damaging oil, grease or other harmful or corrosive substance in the washing or sanitary appliances or drains
- Preventing water pipes freezing in cold weather
- Avoiding danger to the property or neighbouring properties by way of fire or flooding
- Ensuring the property and its fixtures and fittings (including white goods supplied by the group) are kept clean
- Not interfering with the smoke & heat detectors, carbon monoxide detectors, heat detectors or the fire alarm system
- Not interfering with door closer mechanisms

Customers of Commercial Properties let to Third Parties

4.16 Customer responsibilities of commercial properties must meet their obligations in the Missive of Let including;

- Pay to the landlord a share of the cost of maintaining, repairing and improving the common parts of the building
- Provide access to the Group to carry out maintenance
- Maintain the fixtures and fittings in a thorough state of repair
- Pay the costs of repairs carried out by the landlord relating to common parts made necessary by acts of damage, vandalism or neglect
- Ensure they have adequate insurance cover

Customers of Other Properties let to Third Parties

4.17 Third Parties must meet their obligations as set out in the terms of their lease and adequately maintain any property leased to them.

4.18 Third Parties who operate HMOs through a lease will comply with the requirements of the HMO licence granted by the relevant local authority to a Group Subsidiary.

Factored Owners Responsibilities

4.19 Home owners whose properties are factored by Lowther Homes (or by Lowther Homes on behalf of a Group Subsidiary) have a duty to maintain their property in accordance with legislation. They are responsible for keeping the common parts of their building in good condition which includes;

- Reporting repairs as soon as possible
- Keeping the common parts of the building in good order i.e. keeping closes and stairs clean and in good decorative order, tidy and clutter free

4.20 The Written Statement of Services describes (as required under the Code of Conduct for Property Factors) how customers can notify Lowther Homes of repairs and how that service will be provided.

4.21 Where works are required in common areas Lowther Homes will gain consent for the works in accordance with the Deed of Conditions or Factoring Agreement, or if these are silent, the relevant legislation. Shared Owners' repair responsibilities will be set out in their occupancy agreement and Deed of Conditions, which forms part of their title deeds. All shared owners will be responsible for maintaining and servicing all internal components of their homes. Their responsibilities for maintaining common parts will be set out in their occupancy agreement and missives.

5. Repairs Service Standards

5.1 Introduction

5.1.1 The Group has established standards and timescales to deliver the Repairs service, many of which are governed by legislation and good practice. Our service standards take account of the diversity of the group members, including geography, asset base, customer segments and local service delivery arrangements.

5.1.2 As part of our shift in approach from reactive repairs to planned maintenance and in line with our My Repairs initiative, we aim to reduce the number of emergencies we carry out over the period 2020-2025. We will also provide next day appointment slots for our customers at a time that suits them.

5.1.3 All our repair work will be undertaken in line with the Group's commitment to sustainability and takes account of wider economic and social impacts of the policy on individuals, households, local communities and the environment.

5.1.4 The Group's approach to sustainability is set out in the Group Sustainability Plan. All service delivery partners and contractors are expected to work within the spirit of the Group Sustainability Plan and to demonstrate their commitment to sustainability in accordance with their sustainability policies.

5.1.5 The definition of work types is set out in **Appendix 1**.

5.2 Reporting Repairs

5.2.1 Group members as landlords and/or factors in mixed tenure and wholly owned blocks will offer customers a variety of methods to report defects and request repairs. We encourage customers to report repairs through digital means where possible, including :

- Using their on-line account
- Our 'My Repairs' mobile app (from 2021),
- Email; or
- text message

All Group members will promote digital methods of repairs reporting while ensuring that no customer is left behind. Therefore customers will also be able to report repairs by :

- customers may contact us by phone,
- by post; or
- in person

5.2.2 Group members who are landlords of properties for social rent, care staff and Wheatley 360 staff will accept repair requests from residents, members of their household, and other individuals supporting them and authorised to act on their behalf.

5.2.3 Lowther Homes will only accept repairs reported by factored homeowners themselves or their mandated representatives. Repair requests from private tenants of factors homeowners will not be accepted.

5.2.4 Employees of Group members can report repairs on behalf of customers.

5.2.5. Some works may require a pre-inspection to assess the work required before works can be arranged and an appointment agreed. In such circumstances, we will attempt to arrange both the pre-inspection and repair works appointments within the published times.

5.2.6 All repair requests will be recorded on our corporate repairs reporting systems.

5.3 Access

5.3.1 When a customer of a property for social rent, mid market or full market rent, (or where this service is available to a property factored by a group member) reports an internal repair, they will be asked for a contact number (preferably a **mobile number**), their **email address** and when they will be able to provide access.

5.3.2 To reduce no access customers will receive a text to confirm a repair has been raised and their appointed time slot, where appropriate. Where the repair is not an emergency or a next day appointment, customers will also receive follow up texts in the run up to the appointment date.

5.3.3 Where City Building, or our in house repairs team or sub contractor calls to carry out a repair and cannot gain access they will leave a card giving contact details asking the customer to re arrange access. A text message will also be sent to the customer to confirm no access asking them to rearrange access.

5.3.4 We will seek ways for customers to rearrange appointments principally through our online and digital services as part of our **'My Repairs'** initiative to reduce no access.

5.3.5 When a customer reports a common repair, they will be asked for a contact number and access details. Where a contractor calls to carry out a repair and cannot gain access, where relevant, they will leave a card giving contact details asking the customer to re arrange access. We will seek ways for customers to rearrange appointments through our online channels as part of our approach to reduce no access.

5.3.6 Customers of all properties are required under the terms of their tenancy agreement to allow their landlord, access to their home to inspect, carry out repairs, or do other works that are necessary to their property or adjoining properties.

5.3.7 Where it is deemed necessary in the case of an emergency, Group members that are landlords rent reserve the right to force entry.

5.4 Repairs & Maintenance Categories

A) Next Day & Appointed Repairs

5.4.1 Group members who are landlords of properties for social rent, mid and full market rent will offer customers a convenient wide range of next day or by flexible appointment slots for non-emergency repairs at a time that suits them. This includes morning, afternoon, evening, school run and weekend availability.

5.4.2 In our East and West regions, we will also offer a **2 hour time slot** where this suits the customer's needs. In Dumfries and Galloway we will offer a 3 hour AM or PM slot, taking cognisance of the local geography there. Over time as the service matures in DGHP, we will aim to introduce 2 hour slots to ensure customers receive the same convenient service across Group. All appointments will be within **15 working days**, however we anticipate many of these to be next day or within a week.

B) Complex Appointed Repairs

5.4.3 Some repairs are larger, much more complex repairs to our properties which are our responsibility but do not fall into a next day / flexible appointment or an emergency repair scenario.

5.4.4 We will undertake to pre inspect most jobs which fall into this category prior to programming the work. Appointments to carry out complex repairs will be made to suit the needs of the customer.

5.4.5 The length of time required to complete a complex appointed repair will vary depending on the volume and type of work required but generally we would expect to complete these types of repairs within **30 Working days**. Most importantly, we will keep the **customer informed** of progress of the work **throughout the process**.

5.5 C) Emergency Repairs

5.5.1 An emergency repair is where there is a threat to the **health and safety** of our customers or where we need to take quick action to **prevent damage** to one of our properties.

5.5.2 Unless there is a threat to the health and safety of the customer or a need to prevent immediate damage to one of our properties, all repairs will be appointed at a time that suits the customer.

5.5.2 We will :

- Ensure that our customers receive a tradesperson in their home within **2.5 hours** to initially make safe any emergency; and
- We will aim to complete the full repair within **24 hours**.

5.5.3 Repairs reported **outwith normal working** hours will be attended to outwith normal working hours **only when there is a serious risk to the customer's health and safety** or there is a **serious risk to the structure of the property** or where the property is not secure.

Group members will deliver an emergency repairs service 24 hours a day, 365 days a year for all of our customers, regardless of tenure.

5.6 D) Programmed Repairs

5.6.1 Group members (as landlords) will provide a repairs service which covers larger repairs within our customer's home or to the fabric of their property (including common parts) and its immediate environment.

- **Internal Programmed Repairs** - Where this repair is internal to our customer's home we will offer an appointment slot that suits their needs.

- **External Programmed Repairs** – Where the repair is external and we do not require access we will liaise with customers to establish a mutually agreeable appointment time. Most importantly, we will keep the **customer informed** of progress of the work **throughout the process**.

- Customers can expect completion of larger or programmed repairs within **30 working days**.

5.7 E) Major Repairs & Specialist Work

5.7.1 Group Members as Landlords and/or factors will deliver a major repairs and specialist works service where appropriate. Major repairs will generally arise as a result of a request made directly by a customer.

5.7.2 Major and specialist repair works cannot always be carried out as part of the responsive repairs service as they generally require more planning, resources and non-standard materials For reasons of economy or efficiency, major repairs and specialist works may be grouped together in a programme of works.

5.7.3 In most cases an inspection to determine the extent and most appropriate approach to the major repair will be required prior to approval being given for the work to go ahead. If major works or specialist repair is required, customers will be **kept informed** of planned work and **associated timescales**.

5.8 F) Communal Repairs (including mixed ownership blocks/ properties)

5.8.1 Group Members (as landlords and/or factors) will carry out communal repairs on parts of our properties for common use. For reasons of economy or efficiency, communal repairs may be grouped together in a programme of work.

5.8.2 For factored home owners, where the repairs are above the threshold set out in the title deeds, deed of conditions or factoring agreement :

- Lowther Homes will seek consent from the factored owners in both mixed tenure blocks (and wholly owned blocks) in accordance with agreed timescales for proposed works.

- We will provide factored owners with sufficient information to make an informed decision.

- Work will only proceed if consent from homeowners meets the rules as set out in the title deeds, deed of conditions or factoring agreement.

5.9 G) Cyclical Maintenance

5.9.1 Carrying out cyclical maintenance at regular intervals ensures that we achieve value for money through cost efficiencies and reduced waste set against the costs and inconvenience to the customer of reactive repairs when things go wrong.

5.9.2 Group members (as landlord and/or factors) will undertake cyclical maintenance to our properties to deal with the gradual deterioration of the property and its components and finishes. For reasons of economy or efficiency, cyclical maintenance may be grouped together in a programme of work.

5.9.3 Throughout the process we will keep the customer informed of progress of the work. Appointments to carry out the work will be made to suit the needs of the customer.

5.9.4 Lowther Homes as factors of wholly owned blocks will at the request of homes owners or with the agreement of homeowners (as per the title deeds, deed of conditions or factoring agreement) undertake cyclical maintenance to properties to deal with the gradual deterioration of the property and its components and finishes.

5.10 H) Planned Maintenance/Capital Investment Works

5.10.1 Planned maintenance works ensure that major components are repaired before the end of their lifecycle, keeping the quality of our customers' homes to a high standard at all times.

5.10.2 Group members (as landlord and/or factors) will carry out planned maintenance work either part of their **Capital Investment Programme** or where this is not possible, as one-off projects.

5.10.3 Lowther Homes (as factors) will at the request or with the agreement of homeowners as per the title deeds, deed of conditions or factoring agreement, undertake planned maintenance work as per the definition in 4.9.1.

5.11 I) Right to Repair – Social Rent Landlords Only

5.11.1 Group members (as landlord of properties for social rent) will undertake customer 'Right to Repair' work.

5.11.2 Where a customer reports a repair covered by the provisions of the Scottish Secure Tenants (Right to Repair) Regulations 2002, works will be undertaken in accordance with fixed timescales which are set out in the Regulations.

5.11.3 Compensation (as set out in the Regulations) will be payable where these timescales are not met.

5.11.4 Lowther Homes (as landlord of properties for full and mid market rent) will undertake repair work to meet the minimum standards set out in the missive to let.

5.12 J) Adaptations

5.12.1 In order to enhance the quality of life for our customers who may have a disability and live in our properties for social rent, our social landlords will support and assist in the execution of works which will enable independent living, where it is both appropriate and technically viable to do so.

5.12.2 Group Members (as landlord of properties for social rent) will undertake adaptation work in accordance with protocols agreed with the relevant local authority. All works will follow best practice and statutory requirements.

5.12.3 Where proposed works affect common areas in mixed tenure blocks Lowther Homes will seek consent of owners in the block for works to proceed. The very nature of adaptation work means that they can vary in size on complexity on a job by job basis. However, the Group will aim to have an overall average completion time of no greater than **25 days**.

5.12.4 Detailed and accurate records about adapted properties will be maintained to enable implementation of appropriate maintenance regimes and to enable informed decisions to be made about their future allocation to other customers requiring an adapted home.

5.12.5 We will only refuse adaptive work in exceptional circumstances including :

- Where the location of the property or property layout and type makes it unsuitable for the long term use of the customer requesting the adaptation.
- Suitable alternative accommodation can be made available which suits our customers' requirements
- Where the proposed adaptation is technically difficult to achieve without detriment to the property or other customers
- Where the proposed work does not comply with statutory requirements
- Where advice received from relevant partnering agencies is that the proposed adaptation would not be appropriate

5.13 K) Void Properties

5.13.1 All our Group landlords are committed to letting our properties to a high standard and to allow our customers to move into their home with all remedial work completed and free from disrepair. Our approach to managing voids is set out separately in the Group Void Policy

5.13.2 We aim to continuously improve the standard of the homes we let whilst reducing the time taken to let properties in order to minimise lost income. In order to achieve this, we adopt a systematic approach to undertaking inspections and instructing the necessary repair works.

5.13.3 In line with our **'Think Yes Together'** ethos, our staff are empowered to vary void standard to deliver a tailored solution that meets the individual customer expectations and needs where they deem appropriate.

5.13.4 We will aim to have all of voids completed within **15 working days**. Shorter timescales may be agreed for Group members as set out in their annual performance targets. Where major refurbishment work is needed longer timescales will be agreed.

5.14 Statutory/Regulatory Compliance

5.14.1 All Group members will ensure that we fully comply with all legislative and regulatory compliance when delivering our repairs and maintenance service. We will provide compliance solutions for all aspects of mechanical, electrical and building fabric maintenance. The detail of Group's approach to managing compliance is set out in the Group Compliance manual.

5.14.2 As part of our **My Repairs** initiative our approach is to offer a **one-stop shop** service through **Compliance Trades Teams** for compliance works required within a customer's home, initially in the East & West, with Dumfries & Galloway adopting this approach once the service there is established.

5.14.3 This may include **gas servicing**, **smoke & heat alarm testing, fire door inspection, window catch inspection, Thermostatic Mixing Valve checks** depending on the installations in the property. The aim of this service is to minimise disruption to the customer and to provide assurance on safety of our homes.

5.14.4 We will also **communicate regularly** with our customers by **email, text messages** and via our new **Repairs App** so that our customers are kept up to date regarding their compliance visits. For those customers not registered for our digital services or unable to access digital services, we will continue our traditional communication channel for notifying our customers by letter, so that **no customer is left behind**.

5.14.5 We will always ensure that we can demonstrate compliance with our statutory and regulatory responsibilities as landlord and managers of our properties regardless of the chosen method of communication with our customers.

5.15 A) Gas Safety

5.15.1 By annually servicing our gas boilers and flues we will ensure that the homes we own and manage stay safe places to live. Our commitment to gas safety is paramount and we will continue to achieve **100% access rates**.

5.15.2 We initiate our gas servicing procedures **two months in advance** to ensure adequate time for access is provided.

15.5.3 Where we are unsuccessful in gaining access, we will **gain access** in accordance with the procedures set out in the Gas Safety Management Arrangement. For all Group members who all landlords of properties for rent we will arrange **forced entry** to undertake the necessary safety checks.

5.15.4 Our approach to managing gas safety is set out fully in the Group Gas Safety Management Arrangement.

5.16 B) Fire Safety

5.16.1 The Group's approach to fire safety is primarily one of **fire prevention and life preservation**. The Group's approach to managing fire safety is set out fully in the Group Fire Safety Management Arrangement.

5.16.2 By delivering our Fire Prevention and Mitigation framework and working closely with the Scottish Fire and Rescue Service we will ensure that the homes we own and manage stay safe places to live.

5.16.3 Fire safety measures, and fire safety guidance is regularly reviewed across the Group through the Fire Safety Working Group chaired by the Group Health & Safety Manager.

5.17 C) Asbestos Management

5.17.1 The Group acknowledges the health hazards associated with asbestos arising from exposure to asbestos. We will take the appropriate measures to prevent and minimise exposure as reasonably practicable through the use of control measures and specialist contractors in accordance with our obligations under the Control of Asbestos Regulations 2012.

5.17.2 The Group's approach to managing asbestos is set out in the Group Asbestos Management Arrangement.

5.18 D) Thermostatic Mixing Valve (TMV) Installation & Servicing

5.18.1 Group members who areas landlords of properties for social rent will undertake **annual servicing** of TMVs to properties where a customer has been identified as being **vulnerable to scalding** in accordance with the Group's risk profiling matrix.

5.19 E) Fixed Installation Testing (FIT)

5.19.1 Group members who are landlords of properties for **social rent** are required under the Electricity at Work Regulations to carry out Fixed Installation Testing in our properties every **10 years**.

5.19.2 Group members who landlords of properties for **mid and full market rent** are required under the Electricity at Work Regulations to carry out Fixed Installation Testing in our properties every **5 years**.

5.20 F) Water Systems Management

5.20.1 Group Members operate a comprehensive management regime that undertakes bi-annual inspections and remedial works to ensure the properties fall within the Code of Practice for the control of legionella bacteria in water systems.

5.21 G) Pressure Systems

5.21.1 Group Members operate a comprehensive management regime that undertakes inspections and remedial works to ensure the properties comply with the Pressure Systems Safety Regulations (Commercial Boilers).

5.22 H) Mechanical and Electrical (M&E) Management

5.22.1 Group members will operate a comprehensive management regime in relation to inspections of lifts, undertake lift inspections in accordance with the agreed schedule to meet insurance requirements and remedial works, annual testing of lightning protection systems, dry risers and sprinkler systems.

5.22.2 We will also manage a programme of regular and systematic inspections of landlord supplies with the relevant local authority to high rise blocks and stair lighting within all properties with close entrances.

5.23 Construction Design & Management (CDM) Regulations

5.23.1 All Group members who initiate repairs and maintenance work will be subject to the CDM Regulations. All members will take appropriate steps to ensure work is planned in accordance with relevant standards and statutory provisions and will fulfill the role of "Client" by following all required regulations.

5.23.2 Group's approach to managing CDM is set out in the Group CDM Management Arrangement.

5.24 Scottish Housing Quality Standard (SHQS)

5.24.1 Group Members who are landlords of properties for social rent through its planned/capital investment programme will achieve 100% compliance with SHQS where it has been technically feasible to do so.

5.25 The Energy Efficiency Standard for Social Housing (EESSH)

5.25.1 The Energy Efficiency Standard for Social Housing (EESSH) was published in March 2014. The aim of the standard is to build on the achievements of the SQHS in order to meet energy efficiency targets set for 2025 and 2032. Group members who are landlords of properties for social rent, will meet and as far as possible or surpass the Energy Efficiency Standards for Social Housing interim targets by 2025 and 2032 respectively.

EESH Requirement	Level	Date
EESSH	D	2025
EESSH 2	'B' or above	2032

5.26 Defects Liability

A) New Build Defects Liability

5.26.1 All works carried out as part of the Group's new build programme are covered by a defects liability period from the **contractor** or **housebuilder** who constructed the property.

5.26.2 The defects liability period will start from the **date of completion** and generally lasts for **12 months**.

5.26.3 During the defects liability period the contractor or housebuilder is responsible for rectifying defects at **no charge**. A service level will be agreed with the contractor or housebuilder to rectify defects so that inconvenience to the customer is minimised.

B) Reactive Repairs Defects Liability

5.26.4 All reactive repairs work carried out by City Building, our in house repairs teams or their subcontractors are covered by a defects liability period.

5.26.5 This will start from the date of completion of the repair. Generally the defects liability period is for 6 months. During the defects liability period the repairs delivery vehicle is responsible for rectifying defects at no charge.

C) Investment Works Defects Liability

5.26.6 All investment work carried out by the Group's repairs delivery vehicles or by specialist contractors are covered by a defects liability period. This will start from the date of completion of works. Generally the defects liability period is for 12 months. During the defects liability period the repairs delivery vehicle or the specialist contractor is responsible for rectifying defect at no charge. Service levels for rectification of defects will be agreed with contractors to minimize inconvenience to customers.

5.27 Right to Compensation for Improvements – Social Rent Only

5.27.1 Where a customer of a Group member is ending their tenancy they may be eligible for compensation for qualifying improvements which have been undertaken with the approval of the landlord.

5.27.2 Compensation will be in accordance with the formula set out in the Scottish Secure Tenants (Compensation for Improvements) Regulations 2002.

6. Monitoring, Service Improvement & Review

6.1 Customer Engagement – 'You're in Control 24/7'

6.1.1 The customer is at the heart of everything we do. Our repairs service plays a pivotal role in achieving our vision of 'Making Homes & Lives Better'. Our 'My Repairs' initiative and it's strapline **'You're in Control 24/7'** highlights our ambition to work even more collaboratively with our customers to shape the service they receive, giving them greater control and choice 24 hours a day, 7 days a week.

6.1.2 Increased customer involvement will play a key role in developing the future direction of the repairs and maintenance service, tailored to the individual. We will also engage with customers through web self-service, social media emails, texts and in customer conversations through digitally enabled mobile staff. We will embrace the '**Voice of the Customer**', our digital feedback tool which will allow customers to answer quick surveys to which will provide real time feedback on what is going well and allows for early intervention where issues arise.

6.1.3 We will also expand the number of **Tenant Led Inspectors** across the Group to **over 100**, providing customers with transparent access to fully examine our service in detail and be fully empowered to make recommendations that will improve the customer experience.

6.1.4 A **Customer Insight Panel for Repairs** will be established to ensure improvements to the repairs service are driven by what is important to our customers. The panel will feed directly into our three service delivery vehicles in the East, West & South and the insight it provides will play a significant role in shaping future service delivery mechanisms.

6.1.5 We will also continue to work closely with Local Committees consisting of local residents to obtain feedback on the service. In addition, the Group conducts an annual customer survey and ad hoc community events where feedback is gathered. The Group will report on our engagement with customers through our various Group websites and communication magazines.

6.1.6 Continuous improvement in service delivery and performance will be tracked and monitored and results shared with customers. We will do this by tracking and analysing the performance of the repairs service and by working with customers through a range of involvement initiatives across new digital platforms and traditional means as outlined above.

6.2 Customer Satisfaction

6.2.1 On completion of a repair the customer will be invited to provide feedback digitally on their specific repair online, by email, text or via our 'My Repairs' App (by 2021). This will offer customers the opportunity to provide instant feedback as soon as the repair is completed and increase the number of customers delivering feedback.

6.2.2 Customers will also be able to provide feedback by post, telephone or online through their online customer account where preferred, ensuring that no customer is left behind.

6.2.3 The Group will conduct an annual customer satisfaction survey to gather feedback on the performance of the repairs service.

6.2.4 Customers will be periodically invited to complete a customer satisfaction survey relating to the method of repairs reporting.

6.2.5 Group members will regularly report our customer satisfaction survey results to customers through their websites, social media and communication magazine.

6.2.6 Our RSL members will annually report our customer satisfaction performance to the Scottish Housing Regulator in accordance with the requirements of the Scottish Social Housing Charter.

6.3 Service Improvement

6.3.1 The Group aims to deliver an efficient and effective business, demonstrating value for money to our customers with a high standard of service delivery provided at a reasonable cost. We have a range of mechanisms in place to demonstrate and improve our service delivery, including benchmarking performance data. Our newly established **'Repairs, Investment and Compliance Community of Excellence (COE)'** will drive service improvement through the Repairs Service, focussing on improving customer journeys, through digital transformation to make the service convenient, easy to access, track progress and provide feedback.

6.3.2 The COE is jointly chaired by the Director of Repairs, Investment and Compliance and the Director of Operations (City Building Glasgow), driving change in partnership. It will include representatives from all Group members, City Building and our in house repairs teams. Its aims are as follows:

- ✓ **Drive improvements** in repairs, investment and compliance
- ✓ **Promote excellence** in the Group Repairs Service
- ✓ **Manage delivery** of the Group Repairs & Maintenance Policy Framework
- ✓ **Monitor compliance** of the Group Repairs& Maintenance Policy Framework

6.4 Performance Reporting and Monitoring

6.4.1 The Group has established a Group Repairs, Investment and Compliance Performance Management Framework (PMF).

6.4.2 Performance will be reviewed regularly by City Building, our in house repairs delivery teams. Group members, the Executive Team, Group Subsidiary boards and the Group Board in accordance with the agreed scope and frequency set out in the Group Repairs & Investment Performance framework.

6.4.3 Group Members will monitor repairs performance for the properties they own. Issues will be escalated through the levels of the performance framework from subsidiary, to Departmental Management Team level and then to Executive Team level.

6.4.4 Measures and data analytics which are captured by the group and are available 'live' to members include:

- No. of Emergencies
- No. of Appointed Repairs
- Types of appointment
- No access levels
- Right First Time
- Digital Maturity
- Financial / budget monitoring
- Void performance
- Customer Satisfaction

6.4.5 Monthly meetings will be held between the Group Director of Assets & Repairs and :

- the Executive Director of City Building (Glasgow);
- the MD of Dunedin Canmore; and
- the MD of DGHP

6.4.6 The purpose of the meetings will be to review issues escalated from members relating to the performance of the repairs service. In addition key themes will be reviewed based on feedback from data analytics to ensure the future efficiency and effectiveness of the repairs service and promote the shift from reactive repairs to planned maintenance.

6.4.7 The Director of Repairs, Investment and Compliance will monitor repairs performance across the Group, to provide assurance of the quality of service and value for money and report to the Group Director of Assets & Repairs.

6.4.8 The Group will regularly report on our performance to customers through our various digital channels and Group communication magazines.

6.4.9 Third parties may be commissioned to review and monitor performance of specialist services and to provide external compliance assurance. Services subject to external monitoring will include but not be limited to gas services, lifts, and specialist mechanical and electrical services.

6.5 Compliments & Complaints

6.5.1 Improving customer involvement in our complaints processes will provide transparency in our approach and introduce peer challenge to our responses. This will ensure our approach as well as introducing peer challenge to our processes. This will ensure that we learn from the occasions when we get it wrong in a way which will improve our focus on our customers.

6.5.2 Involving customers more in the complaints process will allow them to understand our processes and provide direct input to improvements. We will do this by creating a **Wheatley Peer Ombudsman Panel** which will be made up of a number of customers who will be able to review anonymised cases and propose outcomes.

6.5.3 We also want to know where we have got things right and will provide customers opportunities for customers to **compliment us** on the repairs service online, by email, text or via our 'My Repairs' App (by 2021).

6.5.4 The Group has a formal complaints policy and actively encourages customers who are unhappy with any aspect of the Group's repairs service to use their the right to complain to the relevant Group member using the formal complaint procedure. The Group's complaints process is published on the Group website and all Group members' websites.

6.5.3 The Group member receiving a customer complaint relating to a repair will follow through with the relevant repairs delivery partner to rectification of the repair.

6.5.4 The volume and type of complaints received from customers relating to repairs will also be reviewed through COE and actions will be agreed and implemented to reduce the frequency of complaints.

6.6 Value for Money

6.6.1 The value for money of repair service delivery will be tested periodically through a range of methods including:

- Procurement / market testing of a range of materials, components and services as set out in the Group Procurement Strategy.
- Benchmarking of schedule of rates / rates cards by a third party every 3 years
- Other measures as set out in the Group Repairs & Maintenance Policy Framework

6.6 Assurance

6.6.1 A continuing process in the effective management of the Repairs Service is the requirement that the repairs service processes (and its performance) is reviewed across all group members to confirm that all parts of the organisation are adhering to best practice and legislative requirements.

6.6.2 In addition to the monitoring carried out by the group members, the Executive Team and Boards, the Group Assurance team will include the Repairs Service in their inspection programme.

6.7 Review

6.7.1 This policy will be reviewed annually. In addition regular reviews will be considered where, for example, there is a need to respond to new legislation/policy guidance or there are changes to the structure of the Group.

6.7.2 Reviews will consider customer feedback, legislative changes, performance standard and good practice changes.

6.7.3 The Group will publish this policy framework on our staff intranet site W.E. Connect.

6.7.4 The Group Repairs & Maintenance Policy framework will be used to create individual; Group Member's repairs policies relevant to the customers they serve and the properties they own. The Group will publish the Group Members Repairs Policies on our staff intranet site W.E. Connect. The Group Members' Repairs & Maintenance policies will be available to customers through their subsidiary websites. A hard copy is also available on request. Customers may also request a copy of the policy in other formats and community languages.

Section 7 - Legislative & Regulatory Requirements

7.1 Regulatory Compliance

A) Properties for Social Rent

7.1.1 As a registered provider of care and social housing, the Group's provision of properties for social rent is regulated by the Scottish Social Housing Charter. The Charter sets the standards and outcomes that all social landlords should aim to achieve when performing their housing activities. The Charter was approved by the Scottish Government in March 2012 and came into effect in April 2012 (amended April 2017). The purpose of the Charter is to improve the quality and value of services that social landlords provide for their customers. This will be achieved by:

- Providing customers with a clear statement of what they can expect from the Group in terms of the reactive repairs and planned maintenance service it delivers.
- Concentrating the Group's efforts on achieving outcomes that matter to our customers.
- Regularly assessing the performance of our reactive repairs and planned maintenance service to identify areas of good performance and also areas that need improved.

B) Factored Properties

7.1.2 The Tenements (Scotland) Act 2004 established a duty to maintain whereby every owner has a duty to maintain the parts of a tenement that provide support and shelter. To assist owners in carrying out these duties further legislation was introduced to increase homeowners' confidence in the factoring industry through ensuring factors act transparently, provide clear information and services, and establish an accessible dispute resolution route for homeowners.

7.1.3 Following the Property Factors (Scotland) Act 2011 all property factors have to be registered with Scottish Ministers, and comply with the Code of Conduct for Property Factors.

7.1.4 Four of the Group's registered social landlords are registered property factors, with their duties carried out by the Group's factoring subsidiary YourPlace (Lowther Homes) who is also a direct provider of these services. The requirements of the legislation are achieved by:

- Providing in our Written Statement of Services clear information on what customers can expect from their factor in terms of the repairs and maintenance services it delivers.
- Helping homeowners to make decisions about repairs and maintenance to their property in line with the Title Deeds or Deed of Conditions for their property.
- Regularly assessing the performance of our repairs and maintenance service to identify areas of good performance and also areas that need improved so that homeowners receive a high quality, value for money service.

C) Houses of Multiple Occupation (HMOs)

7.1.5 The Housing (Scotland) Act 2006 includes the regulation of HMOs. A Licence is required for the occupation of living accommodation used as a House of Multiple Occupation (HMO). The application of a licence must be made by the relevant owner (Group Subsidiary) of the living accommodation.

7.1.6 Living accommodation is an HMO within the meaning of the 2006 Housing Act, if it is:

- Occupied by 3 or more persons from 3 or more families, and;
- Occupied by them as their only or main residence, or in some other manner specified by Scottish Ministers by order, and;
- Either a house, premise or group of premises owned by the same person with shared basic amenities, or some other type of accommodation specified by Scottish Ministers, by order.

7.1.7 The legislation covers houses, flats and bedsits, hostels, student halls of residence and staff accommodation in hotels or hospitals. Accommodation within a building which, although otherwise separate, shares use of a toilet, personal washing facilities, or cooking facilities is taken to form part of a single HMO.

7.2 Legislative Compliance

A) Properties for Social Rent

7.2.1 Our landlord activities to maintain our properties for social rent should comply with all legislation, guidance and best practice and encompasses the following non-exhaustive list of Statutes, Regulations and Guidance as set out below at Section (B). Our properties for social rent should also comply with the following legislation:

- Scottish Secure Tenants (Right to Repair) Regulations 2002
  http://www.legislation.gov.uk/ssi/2002/316/contents/

- Scottish Secure Tenants (Compensation for Improvements) Regulations 2002
  http://www.legislation.gov.uk/ssi/2002/312/made

  Energy Efficiency Standard for Social Housing
  http://www.gov.scot/Resource/0044/00447123.pdf

- Scottish Housing Quality Standard
  http://www.gov.scot/Topics/Built-Environment/Housing/16342/shqs

B) All Tenures

7.2.2 The Group's activities to maintain our properties across all tenures should comply with all legislation, guidance and best practice and encompasses the following non-exhaustive list of Statutes, Regulations and Guidance;

- 18th Edition Wiring Regulations – BS 7671
  http://www.hse.gov.uk/electricity/faq.htm

- Climate Change (Scotland) Act 2009
  http://www.legislation.gov.uk/asp/2009/12/contents

- Construction (Design and Management) Regulations 2015
  http://www.legislation.gov.uk/uksi/2015/51/contents/made

- Control of Asbestos Regulations 2012
  http://www.legislation.gov.uk/uksi/2012/632/contents/made

- Control of Substances Hazardous to Health Regulations 2002
  http://www.hse.gov.uk/pUbns/priced/l5.pdf

  Energy Act 2011
  http://www.legislation.gov.uk/ukpga/2011/16/contents/enacted

- Energy Performance of Buildings (Scotland) Regulations 2008
  http://www.legislation.gov.uk/ssi/2008/309/contents/made

- Equality Act 2010
  http://www.legislation.gov.uk/ukpga/2010/15/contents

- Fire Safety (Scotland) Regulations 2006
  http://www.legislation.gov.uk/ssi/2006/456/pdfs/ssi_20060456_en.pdf

- Gas Safety (Installation and Use) Regulations 1998
  http://www.legislation.gov.uk/uksi/1998/2451/contents/made

- Gas Safety (Management) Regulations 1996
  http://www.hse.gov.uk/pUbns/priced/l80.pdf

- Health and Safety at Work Act (1974)
  https://www.legislation.gov.uk/ukpga/1974/37

- The Lifting Operations and Lifting Equipment Regulations 1998
  http://www.legislation.gov.uk/uksi/1998/2307/contents/made

- Scottish Building Standards 2013 Domestic and Non-Domestic
  http://www.legislation.gov.uk/asp/2003/8/contents

- Pressure Systems Safety Regulations (Commercial Boilers)
  http://www.hse.gov.uk/pUbns/priced/l122.pdf

C) Factored Properties

7.2.3 The factor's activities to maintain the properties factored by Group Members should comply with all relevant legislation, guidance and best practice and encompasses the following non-exhaustive list of Statutes, Regulations and Guidance as set out in this document. In addition factoring activities should comply with the following legislation:

- Tenements (Scotland) Act 2004
  http://www.legislation.gov.uk/asp/2004/11/contentsTenements (Scotland) Act 2004

- Property Factors (Scotland(Act 2011
  http://www.legislation.gov.uk/asp/2011/8/contents

- Code of Conduct for Property Factors (Effective 1 October 2012)
  https://www.gov.scot/publications/property-factors-scotland-act-2011-code-conduct-property-factors/

D) Data Protection

7.2.4 The Group recognises the confidential nature of the information given by its customers and respects that it should not be disclosed to anyone who does not have both a need and a right to know it. The Group complies with the provision of The General Data Protection Regulations 2018.

Appendix One - Definitions

Appendix 1 - Definitions

For the purposes of this policy framework, the following definitions apply;

A1.1 Repair

The process of rectifying a component or installation in a Group owned and/or managed property for which it is responsible, when it is faulty or in a state of disrepair.

A1.2 Next Day & Appointed Repairs

These can be every day repairs which are required as a result of normal wear and tear of the property. These repairs will be carried out on a next day basis or by flexible appointment to suit the customer. Generally we would expect to complete these repairs within 15 days. Examples of next day / appointment based repairs include;

- Repair to toilet.
- Containable minor leak at wash hand basin
- Light pendant not working in one room
- Faulty radiators.

Examples of larger appointed repairs include;

- Multiple renewal of internal pass doors.
- Plaster work to walls.
- Renewal of bath
- Renewal of a kitchen sink unit
- Works requiring access plant such as scaffold erection / MEWP
- Boundary Fence renewal
- Path works

A1.3 Emergency Repair

An emergency repair is where there is a threat to the health and safety of our customers or where we need to take quick action to prevent damage to one of our properties. Faults classed as an emergency repair will be made safe within 2.5 hours and completed within 24 hours.

Examples of emergency repairs include;

- Front door is not secure.
- Burst water pipe.
- No heating/hot water.

A1.4 Out of Hours Emergency Repair

Emergency repairs out with normal working hours (out of hours emergencies). Some emergency repairs are available 24 hours a day, every day of the year.

A1.5 Cyclical Maintenance

Cyclical maintenance is regular maintenance carried out to our properties to deal with the gradual deterioration of the property and its components and finishes. Examples of cyclical maintenance works include;

- Repair/cleaning of rainwater goods.
- Paining of fascia and soffit boards.
- Render cleaning
- Power washing slabs / monoblock.
- Close/Stair painting

A1.6 Planned Maintenance

Planned maintenance works ensure that major elements are repaired before the end of their lifecycle. As a result, the quality of our properties will remain at a high standard. Planned improvements are classed as Capital Investment work.

Examples of planned maintenance works include;

- Renew Kitchen and/or bathroom.
- Renew gas heating boiler.
- Secure door entry system.

A1.7 Major Repairs and Specialist Work

Major and specialist repairs are works to our houses to replace and/or upgrade deteriorated and/or failed components which cannot be undertaken through the normal repairs process.

Examples of major repairs and specialist works include;

- Removal of timber infestation including wet and dry rot.
- Structural defects.
- Significant fire and/or flood damage.
- Significant storm damage to roofs and other parts of superstructure

A1.8 Right to Repair

Where a customer reports a repair covered by the provisions of the Scottish Secure Tenants (Right to Repair) Regulations 2002, fixed timescales apply to the period within which the repairs must be completed.

Examples of Right to Repair include;

- Loss of power.
- Blocked sink, bath or drain.
- Loss of water supply.

A1.9 Void Properties

Empty properties are called 'voids'. Voids are handed to the Repairs Team to inspect for any maintenance works required before they are re-let. The Repairs Team will visit each property and arrange for any repair works needed to bring them up to meet our void standard

A1.10 Adaptations

These are improvements to a house and/or common area to help a customer to live more comfortably within their home and reduce the need to move to another property. For larger adaptations, a referral will be received from a partnering agency. For smaller adaptations a customer can 'self-refer'

A1.11 Communal Repairs

Communal repairs are carried out to entrances, closes, lifts, stairways, common lighting, door entry systems and other parts provided for common use. They may also be carried out on fencing and other external structures that are the responsibility of the Group or common to properties we factor.

A1.12 Statutory/Regulatory Compliance

Our compliance work involves the implementation of a safety first regime or periodic testing and/or servicing, inspection and prevention maintenance programmes to provide evidence of statutory compliance and safe buildings for our customers.
For full details of compliance related matters please refer to the Group Compliance manual.

The Group covers the following compliance works through the repairs and maintenance service;

A1.13 Gas Safety Management

In order that we can carry out annual gas safety checks timeously, the Group will adhere to the requirements of our Gas Safety Management Arrangement including initiating the service procedure two months in advance to ensure adequate time for access is provided.

Valid safety certificates must be in place continuously for every gas property that the Group Member owns. Group Members will retain hard copies of all Gas Safety Certificates for two years.

A1.15 Asbestos Management

The Group acknowledges the health hazards associated with asbestos arising from exposure to asbestos and will take the appropriate measures to reduce exposure so far as reasonably practicable through the use of control measures and specialist contractors. Management procedures will include the following:

- Managing or removing asbestos in premises under the control of the Group;
- Assessing/ inspecting all reasonably accessible areas in properties under the control of a Group Subsidiary when acquired and/or where there has been a significant change since a previous assessment;
- Reviewing plans for control of asbestos at regular intervals;

- Maintaining a written record of inspections, assessments, location/ condition of asbestos found and plans for on-going control (asbestos register).

A1.16 Thermostatic Mixing Valve (TMV) Installation & Servicing

A TMV is a valve that blends hot water with cold water to ensure that the temperature of running water from a bath or shower remains constant and safe to prevent scalding.

A1.17 Fixed Installation Testing (FIT)

FIT testing involves the testing of electrical services and systems that conduct electricity around the building. It covers all of the hard wiring in a building and includes items such as main panels, distribution boards, lighting, sockets, air conditioning and other fixed plant. The test involves performing a sequence of rigorous visual inspections and tests on all systems in the building.

A1.18 Water Systems Management

The Group operates a comprehensive management regime that undertakes bi-annual inspections and remedial works to ensure the properties fall within the Code of Practice for the control of legionella bacteria in water systems.

A1.19 Mechanical and Electrical Management

The Group operates a comprehensive management regime in relation to inspections of lifts, undertake lift inspections in accordance with the agreed schedule to meet insurers requirements and remedial works, annual testing of lightning protection systems, dry risers and sprinkler systems in bin stores. We will also undertake regular and systematic inspections of landlord supplies to high rise blocks and stair lighting within all properties with close entrances.

Other mechanical and electrical management work elements include:

- Fire and Care alarm maintenance
- Smoke Vent Maintenance
- Industrial laundry duct cleaning and annual maintenance (DC Cube only, occasionally HMO licensing requirement)
- Lightening Conductors
- Communal TV Aerials
- Micro renewables eg solar electric/hot water
- Ventilation Systems

A1.20 Handyperson Service

The handyperson service will carry out small repairs and minor improvement works, including; changing plugs, changing light bulbs, plumbing in washing machines and making small repairs.

Customers can use it as many times as they like. It is free, but they will need to pay for any materials needed for the job.

Appendix 2

Staff Roles & Responsibilities Matrix

Title	Responsibility
Executive Team	
Group Director of Assets & Repairs	• Regularly reviewing performance of the repairs service across all Group Members in accordance with the Group's Repairs, Investment and Compliance Performance Framework. • Reporting performance of the repairs service as necessary to the Group Board and Group Subsidiary boards and externally to regulatory bodies. • Leading in innovation and digital tansformation to continuously improve the repairs service • Ensuring the repairs management system (including the management arrangements, all plans and processes) is reviewed and that the repairs management system is maintained regularly and updated as required. • Reviewing customer satisfaction across different user channels and across different customer groups
Group Director of Housing & Care	• Providing feedback to the Group Director Repairs & Assets on the group's social housing and care customers' experience of using the Group's repairs service • Reviewing and reporting financial performance of the repairs service through RSL Managing Directors, Locality Directors and Housing Managers. • Reviewing customer satisfaction • Participating in innovation to continuously improve the repairs service for all properties for social rent and care facilities.
Group Director of Property & Development	• Providing feedback to the Group Director of Repair & Assets for all customers of properties for mid and full market rent and commercial properties • Reviewing customer satisfaction of properties for mid and full market rent and commercial properties' customer satisfaction • Participating in innovation to continuously improve the repairs service for all domestic properties for mid and full market rent and commercial properties
Group Director of Finance	• Driving digital transformation to continuously improve the repairs service • Reviewing customer satisfaction with digital services • Providing feedback to the Group Director of Assets & Repairs on the digital maturity of customer's experience of using the Group repairs service • Reviewing customer satisfaction with all channels for reporting repairs.

Title	Responsibility
Directors & Managing Directors	
Director of Repairs, Investment and Compliance	• Managing the performance of overall repairs service in the West delivered through City Building (Glasgow) • Implementing a repairs service that delivers top quartile results (in accordance with Scottish Housing Regulator Annual Return to comply with the Social Housing Charter) for the Group Members within its area of responsibility and high quality service for Lowther Homes that drives improved customer satisfaction • Increasing customer engagement /choice / participation in the end to end repairs process across all tenures • Promoting excellence in repairs delivery across the Group • Driving improvement in repairs performance to meet statutory requirements, regulatory requirements and good practice • Monitoring the Group's compliance with this Repairs & Maintenance Policy Framework • Managing delivery of the Group Repairs Strategy • Driving enhanced service and efficient delivery models via utilisation of digital technology and Artificial Intelligence tools. • Delivering landlord and factored owner compliance and assurance • Monitoring quality of repairs delivery and reporting this to subsidiary MDs
Managing Director, Dunedin Canmore	• Managing the performance of the repairs service delivered in the East through the Dunedin Canmore Property Services. For the Group Member within its area of responsibility the postholder will: • Implementing a repairs service that delivers top quartile results (in accordance with Scottish Housing Regulator Annual Return to comply with the Social Housing Charter) • Increasing customer engagement /choice • Promoting excellence in repairs delivery • Driving improvement in repairs performance to meet statutory requirements, regulatory requirements and good practice • Monitoring the DCPS's compliance with this Repairs & Maintenance Policy Framework • Delivering DCPS's responsibility set out in the Group Repairs Strategy • Driving enhanced service and efficient delivery models via utilisation of digital technology and Artificial Intelligence tools. • Delivering landlord and factored owner compliance and assurance • Monitoring quality of repairs delivery by DCPS and specialist contractors

Title	Responsibility
Managing Director, Dumfries & Galloway Housing Partnership	• Managing the performance of the repairs service delivered in the South through DGHP's in house repairs service. • Implementing a repairs service that delivers top quartile results (in accordance with Scottish Housing Regulator Annual Return to comply with the Social Housing Charter) • Increasing customer engagement /choice • Promoting excellence in repairs delivery • Driving improvement in repairs performance to meet statutory requirements, regulatory requirements and good practice • Monitoring the DGHP's in house repairs service compliance with this Repairs & Maintenance Policy Framework • Delivering DGHP's in house repairs service responsibility set out in the Group Repairs Strategy • Driving enhanced service and efficient delivery models via utilisation of digital technology and Artificial Intelligence tools. • Delivering landlord and factored owner compliance and assurance • Monitoring quality of repairs delivery by DGHP's in house repairs service and specialist contractors
Managing Director of Lowther Homes	• Managing the performance of repair services for properties it factors on behalf of owners of wholly owned blocks and of mixed tenure blocks on behalf of Group RSL Members. • Managing the performance of the repairs service for properties it lets and manages for mid and full market rent • Managing the performance of repairs for all commercial properties across the Group on behalf of the Group Members who own these properties.
Director of Customer Experience	• Receiving all reporting of repairs by customers on behalf of all Group Members • Managing the delivery of all channels (including telephony and digital channels) for customers to report repairs across the Group • Promoting excellence in repairs delivery across the Group including repairs diagnosis to maximise right first time and reduce reactive repairs emergency repairs and no access • Reporting the performance of all channels for customers to report repairs • Promoting digital channels for customers to report repairs while ensuring that no customer is left behind • Monitoring the volume, scope and cost of repairs reported via the Customer Service Centre • Developing and delivering the Group's approach to Digital Maturity including repairs reporting and feedback • Providing channels for customers to feedback on their experience of the end to end repairs process • Promoting customer participation in the design and delivery of repairs

RSL & Care Group Subsidiary Managing Directors	For properties for social rent owned by the Group Subsidiary, the Managing Director is responsible for: • Managing performance of the repairs services to customers and the repairs budget. Through agreement a Group Subsidiary Managing Director may delegate responsibility for managing the repairs service delivery to another subsidiary of the Group who will act as their agent. For MMR, full market and commercial properties owned by the Group Subsidiary the Managing Director is responsible for: • Managing repairs in accordance with to the lease or missive to let. Through agreement they may delegate responsibility for managing repairs to another Group Subsidiary who will act as their agent. For properties leased from third parties the Managing Director is responsible for: • Managing repairs in accordance with the lease. Through agreement they may delegate responsibility for managing repairs to another Group Subsidiary who will act as their agent. All Group RSL Members will delegate their responsibility as factor in mixed tenure blocks to Lowther Homes. For properties owned by a Group subsidiary where a Licence for an HMO is required to be obtained from a local authority the Managing Director is responsible for • Making the necessary application and obtaining the licence • Complying with the conditions of the licence Costs relating to the compliance with the maintenance and renewal of the licence and expense of any works relevant to the compliance of the licence, should be met in full by the Tenant / Lease Holder. Statutory compliance for electrical installations, gas installations, services, utilities and fire safety measures should be maintained by the Group Subsidiary and may be recharged to the Tenant / Lease Holder. For properties where the Group Subsidiary is the licensee for an HMO the Group Subsidiary Managing Director has responsibility for: • Discharging the licence holder duties as set out in the HMO licence. Through agreement they may delegate responsibility for undertaking the licence holder duties to another Group Subsidiary who will act as their agent.

Title	Responsibility
Director of Property Development & Initiatives	• Managing the performance of the repair service and statutory compliance for all corporate properties across the Group, acting as an agent on behalf of Group Members who own or lease corporate properties. • Providing Asset Intelligence relating to the Group's repairs service to the Executive Team, Group Members, Directors and Managers. This includes strategic and predictive analysis of repairs across all Members and property types.
Senior Managers/Managers/Staff	
RSL Locality Housing Directors, Head of Housing,Housing Managers & Care Managers	• Managing performance of the repairs service to customers within their business areas • Managing the repairs budget for their business area. The Director, Locality Housing Director or Manager responsible for an individual corporate property is responsible for • Reporting and managing reactive repairs locally The Care Manager responsible for an individual care facility is responsible for • Reporting and managing reactive repairs locally
Managers	All management teams and employees have a responsibility to embrace repairs 'good practice' at all times. All Managers will have responsibility for compliance with this policy in their business area, and also to support the repairs management system.
Staff	Staff are responsible for reporting repairs and monitoring compliance in accordance with their job profiles.

Report

To: Wheatley Housing Group Board

By: Tom Barclay, Group Director of Property and Development

Approved by: Martin Armstrong, Group Chief Executive

Subject: Group new build performance report

Date of Meeting: 19 February 2020

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1. Purpose

1.1 The purpose of this report is to provide the Group Board with an overview of the Group's new build programme performance to 31 December 2019.

2. Authorising context

2.1 Under the Group Standing Orders and Authorising Framework, Wheatley Housing Group Board approval is required for key matters relating to the Group's financial and strategic framework. The Group Board retains strategic oversight of progress with the asset growth programme across the Group.

2.2 The Group Development Committee has operational oversight of the development programme, including approval of new projects, in line with the Committee's terms of reference approved by the Wheatley Housing Group Board in April 2019.

3. Risk appetite and assessment

3.1 The Group's risk appetite in respect of development is "open", which is defined as willing to choose the option "*most likely to result in successful delivery while also providing an acceptable level of reward*".

3.2 The information provided in this report supports our management of risk in respect of the development programme by providing a robust performance management framework for the Group Development Committee.

4. Background

4.1 A development performance report is presented to each scheduled meeting of the Group Board and the Group Development Committee. The report would continue to both summarise progress to date, in year, on key issues, including completions, in the delivery of the Group wide development programme.

4.2 The performance report would also seek to draw out any known risks or significant updates that should be drawn to the attention of the Group Board in relation to the programme or specific projects.

4.3 The performance report is accompanied by a Dashboard that summarises the Group wide programme. This includes a forecast completions to year end.

5. Discussion

Group New Build Dashboard

5.1 The Group New Build Performance Dashboard to 31 December 2019 is attached at Appendix 1. Commentary on the dashboard indicators, including highlights and exceptions, is provided in Table 1 below. In the commentary that follows Table 1 we have updated the position to summarise current position.

Table 1

Dashboard Indicators	Dashboard : Highlights & Exceptions
On site	▪ We have 22 live development projects totalling 1,385 units. ▪ This is across 22 live development projects. ▪ Our **largest** project on site is GHA's Sighthill project (198 units). ▪ Our **smallest** project is DCH 2 unit turnkey project in North Berwick.
Due on site	▪ We have a further 175 units across 4 projects due on site. ▪ This will bring our total programme to 1,560 units.
2019/20 Budget v Actual spend	At Period 9 (31 December 2019) our spend across the Group was **£66.0m**, set against our year to date budget of **£85.9m**. As previously reported, at the core of this movement of budget v spend is the later than planned site start of a number of projects, including: GHA Sighthill and Kennishead, Cube Queen's Quay, DCH South Gilmerton and WLHP Almondvale. Please note this summary will differ from the Finance report which includes accounting adjustments for capitalised development staff, finance and demolition costs as well as costs incurred for projects not yet on site. The new build dashboard focuses on live developments only.
Completions to 31 December 2019	▪ To 31 December 2019 we have completed 628 units, against an in year, period 9 Group wide target of 449 units. ▪ Completed projects in the year to date include: two Cube developments in Bonhill, West Dunbartonshire, DCH's Ravelrig Road, North Berwick Phase 2 and Aberlady projects, GHA Bell Street, Glenacre and Hinshelwood projects and Loretto's Muiryhall Street, Coatbridge and Buckley Street projects. ▪ Our completions target for 2019/20 is 914 units. At period 9 we are 69**%** complete against our annual target.
Engagement Status	▪ We have 14 '**High Engagement**' projects on site or due on site. These projects mainly relate to scale of the project (over 70 units) or where the project involves complex ground conditions. ▪ The majority of these projects are progressing satisfactorily. All Engie Regeneration Ltd projects continue as high engagement.
Contractor Financial Exposure	▪ We have contractual relationships for development projects, amounting to **£227m**. ▪ The level of financial exposure varies from quarter to quarter as projects enter into contract, commence on site, move to practical completion, and move outwith the defects period.

5.2 Engie Regeneration Limited

5.2.1 The GHA Ibroxholm Phase 2 project (65 units of MMR housing) completed in December 2019, with a final phase handover of 17 units. As previously reported, this was significantly behind programme, with a contractual completion date of December 2018, with L&A damages applied to this contract.

5.2.2 Engie continues on site at three other GHA developments in Glasgow: Auchinlea Road (106 units, 26 units of which being developed for Provanhall HA), Bellrock Street (53 units) and Kennishead (48 units). As previously reported, there is slippage in the contractor's programme at Bellrock Street. This is the only one of the three Engie projects planned to complete in 2019/20. The contractual end date for Bellrock Street is January 2020, with the contractor committed to a completion date in late March 2020. We anticipate that the final phase (19 units) of this project will move into Q1 2020/21. The Business Plan has been adjusted on this basis.

5.3 WLHP: Jarvey Street, Bathgate

5.3.1 A presentation on the outcome from the Jarvey Street adjudication was made to the Group Board meeting on 18 December 2019. Work is ongoing to conclude the anticipated contract costs with City Building to complete the project. The Group Development Committee will be considering the project further at their next meeting.

5.4 GHA: Linkwood

5.4.1 The Scottish Water main works that have impacted on our GHA Linkwood project are now completed, albeit significantly delayed from Scottish Water's original programme. As previously reported, this delay results in the Linkwood project now not completing until July 2020, in lieu of the programmed March 2020.

5.5 DCH: South Gilmerton

5.5.1 The South Gilmerton site in the Dunedin Canmore programme has now been acquired and the building contract executed on 19 December 2019. The grouting works have been completed and we are anticipating a site start in February 2020.

5.6 Contractor Financial Exposure

5.6.1 The Group Development Committee, at its meeting on 23 January 2020, considered a report reflecting on the Group's practice on contractor financial exposure. The Committee noted the approach of the Group which includes diligence linked to our contractor framework, use of Equifax credit alerts, media searches, as well as using other contractual options such as performance bonds and parent company guarantees, on a case by case basis.

5.6.2 Our new build programme is our largest single area of expenditure, and contractor failure could have a significant financial impact on our Group. For that reason, the Group Development Committee will continue to see results of contractor exposure reported within the performance paper, as a standing item on the Committee's agenda. The Committee will report to the Board on any matter of concern.

6. Key issues and conclusions

6.1 Our completions target for the Group-wide programme in 2019/20 is **914** units. At this stage in the year, against a 31 December 2019 in-year target of 449 units, we have 628 units (69% of our annual target) handed over and in management. This includes 207 units that were initially programmed to hand over in 2018/19.

6.2 We continue to manage, in high engagement terms, all projects being delivered by Engie Regeneration Limited. We also have a significant development team and property legal staff time focus on both the Jarvey Street and Queen's Quay projects.

7. Value for money implications

7.1 Our ability to successfully deliver new build housing helps strengthen the income streams in our business plan and supports our RSLs' charitable objectives to address housing need by providing much needed homes for potential customers on our waiting lists.

7.2 Delivering value for money to our funders and stakeholders, including the Scottish Government and local authorities, continues to maintain our position as a key delivery partner.

8. Impact on financial projections

8.1 The completions target for the year is 914 units as set in the 2019/20 Business Plan. Latest projections based on actual performance indicate that this target will be achieved by year end. This will ensure that rent from new build units in 2019/20 also achieves the Business Plan target of £5.2m.

8.2 Our full year forecast for 2019/20 shows lower new build grant of £7.7m in the year and lower levels of expenditure against budget (£16.8m variance) also driven by the later than planned site starts of a number of projects, including GHA's Sighthill and Kennishead, Cube's Queen's Quay and Dunedin Canmore's South Gilmerton sites.

8.3 The latest forecast on unit completions (including 4 shared equity units at Gallowgate 19/20) is summarised in the table 3 below:

Unit completions	2019/20	2020/21	2021/22	2022/23	2023/24
Feb 2019 Business Plan	914	684	604	664	662
Forecast	968	666	599	624	666

Development Fund

8.4 The approved 2019/20 business plan includes an allocation of £4.6m to help support the new build programme.

8.5 Table 4 below summarises those projects that have drawn from the development fund in the year to date, and those for which a provision has been approved by the appropriate RSL Board as part of the new build approval process.

Scheme	£'000
2019/20 Business Plan allocation	**4,600**
Drawn to date	
GHA Scaraway - Land Acquisition	53
LHA Hallrule Drive - Land Acquisition	92
	145
Provision	
GHA Watson St – Financial assistance	199
GHA Calton Village - Ph1 - Land Acquisition	380
	579
Remaining Balance	**3,876**

8.6 A balance of just under £3.9m remains in the development fund to support future projects.

9. Legal, regulatory and charitable implications

9.1 The Scottish Housing Regulator seeks regular updates on our new build programme and funding position.

9.2 The in-house legal team undertakes title due diligence relative to all site acquisitions required to facilitate the development programmes along with preparation of documentation and due diligence associated with asset securitisation.

9.3 The legal team also assist with preparation of legal documents including Building Contracts and Development Agreements to safeguard our development operations.

10. Partnership implications

10.1 The development programme requires on-going partnership working with the Scottish Government and the Local Authorities in our operational areas including those with Transfer of Management Development Funding (TMDF) powers, namely Glasgow and Edinburgh.

10.2 We also require to continuously develop and maintain strong relationships with private developers, housebuilders, contractors and land agents in order to deliver our asset growth ambitions.

11. Implementation and deployment

11.1 The delivery and performance management of the new build programme is led by the Wheatley Solutions Property & Development Team, under the Group Director of Property and Development.

12. Equalities impact

12.1 Within the programmes, all new build units are designed to Housing with Varying Needs (Part 1), as integrated into the 'Glasgow' and 'Edinburgh' mandatory standards promoted by the respective local authorities. The inclusion of wheelchair units on a number of sites is a standard funding requirement.

13. Recommendation

13.1 The Group Board is asked to note the contents of the report and the attached Group New Build Performance Dashboard to 31 December 2019.

List of Appendices

Appendix 1 - New Build Performance Dashboard

Wheatley Group

Development Dashboard

Report at: **P09**

Highlights

In Year Budget	Actual Spend
£85.9M	£66.0M

Note: excludes non-specific project costs such as capitalised demolition, employee and finance costs, etc.

	on site	due on site
projects	22	4
total units	1,385	175

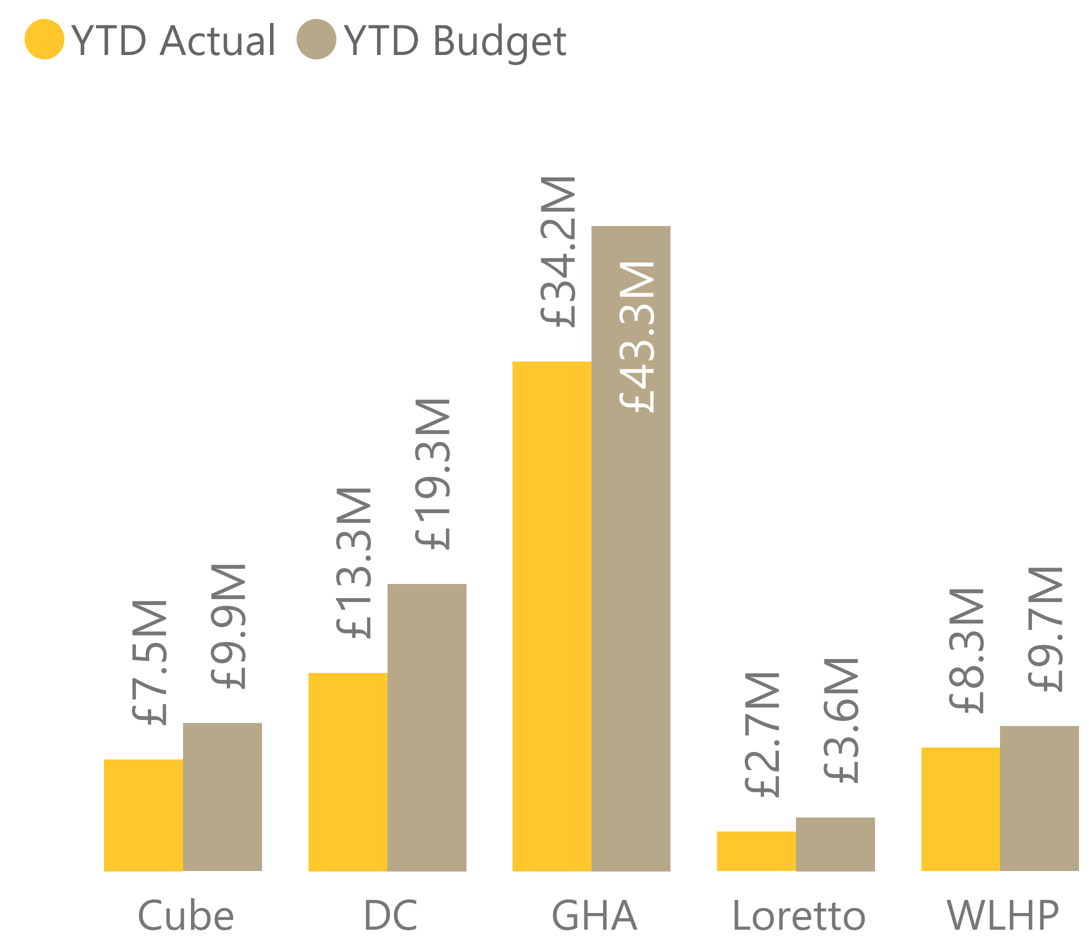
Completions to end of Period

Sub	Actual	Target
Cube	97	17
DC	77	191
GHA	345	171
Loretto	56	28
WLHP	53	42
Total	**628**	**449**

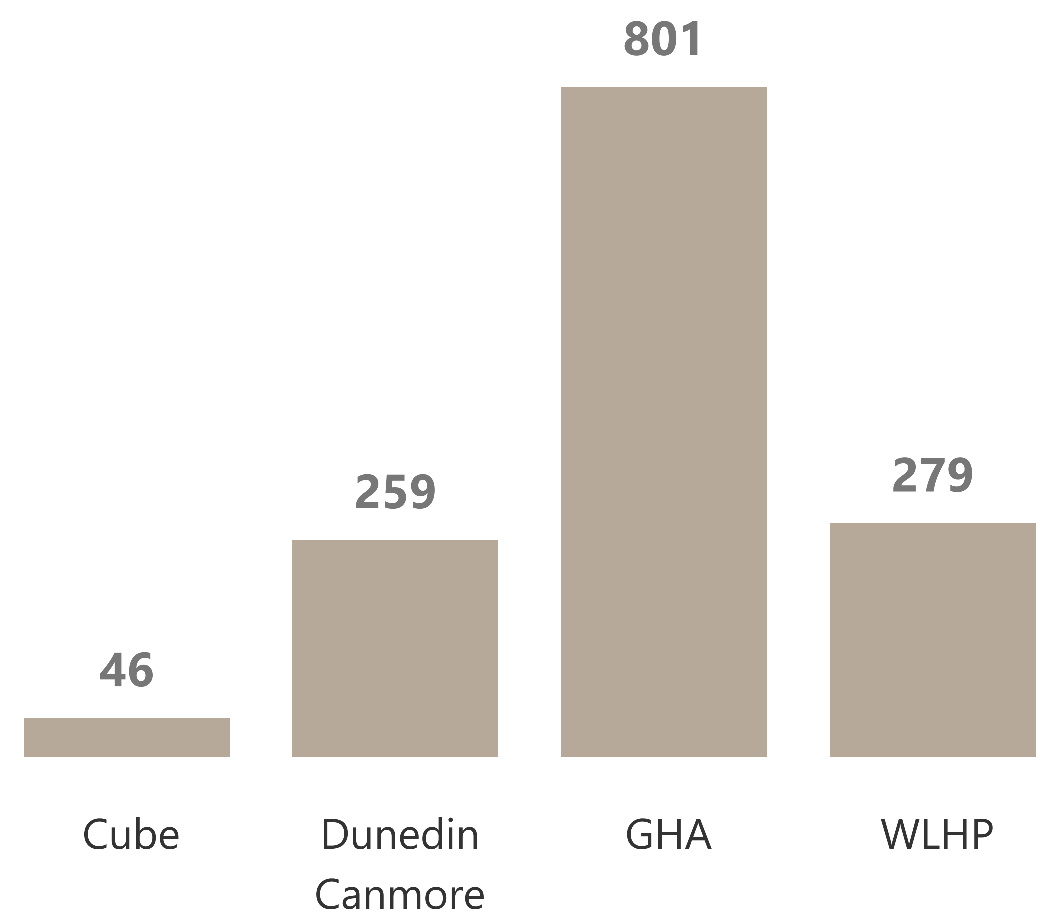
Annual Targets

Sub	MMR	Reprov	SR	Total
Cube			63	**63**
DC	131		152	**283**
GHA	57	143	213	**413**
Loretto			28	**28**
WLHP	42		85	**127**
Total	**230**	**143**	**541**	**914**

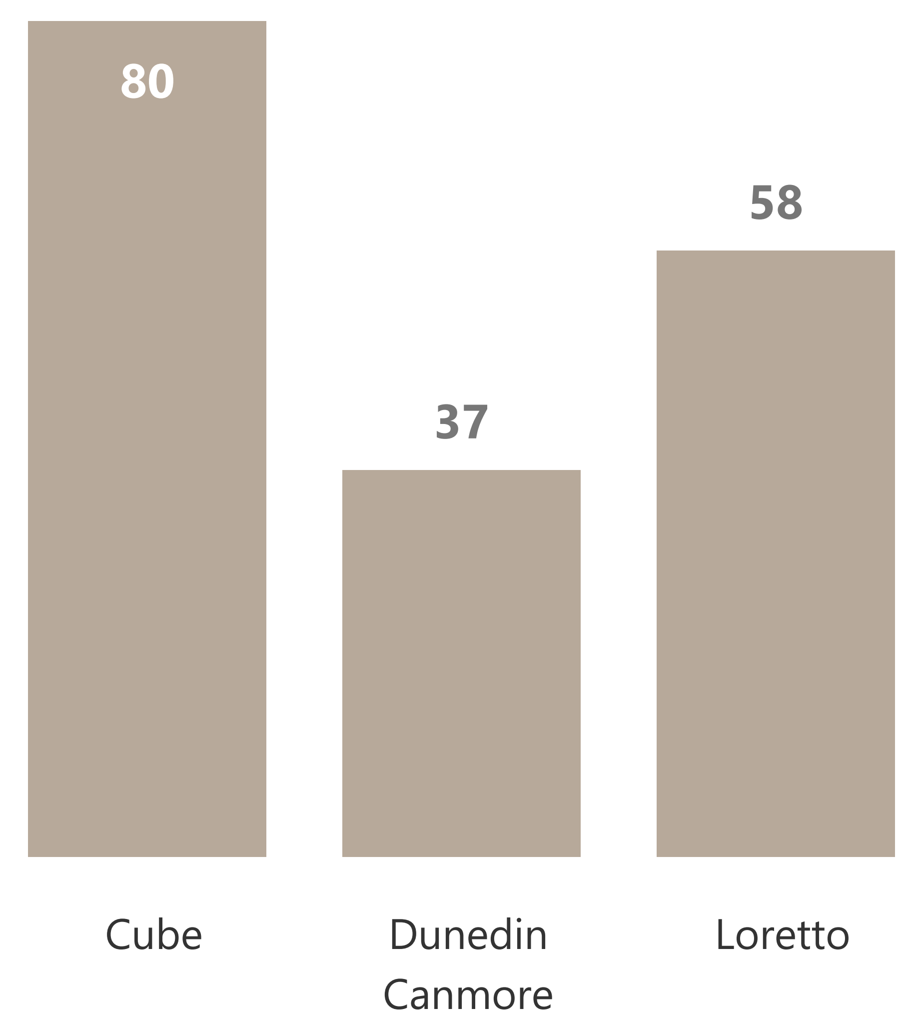
Project Spend



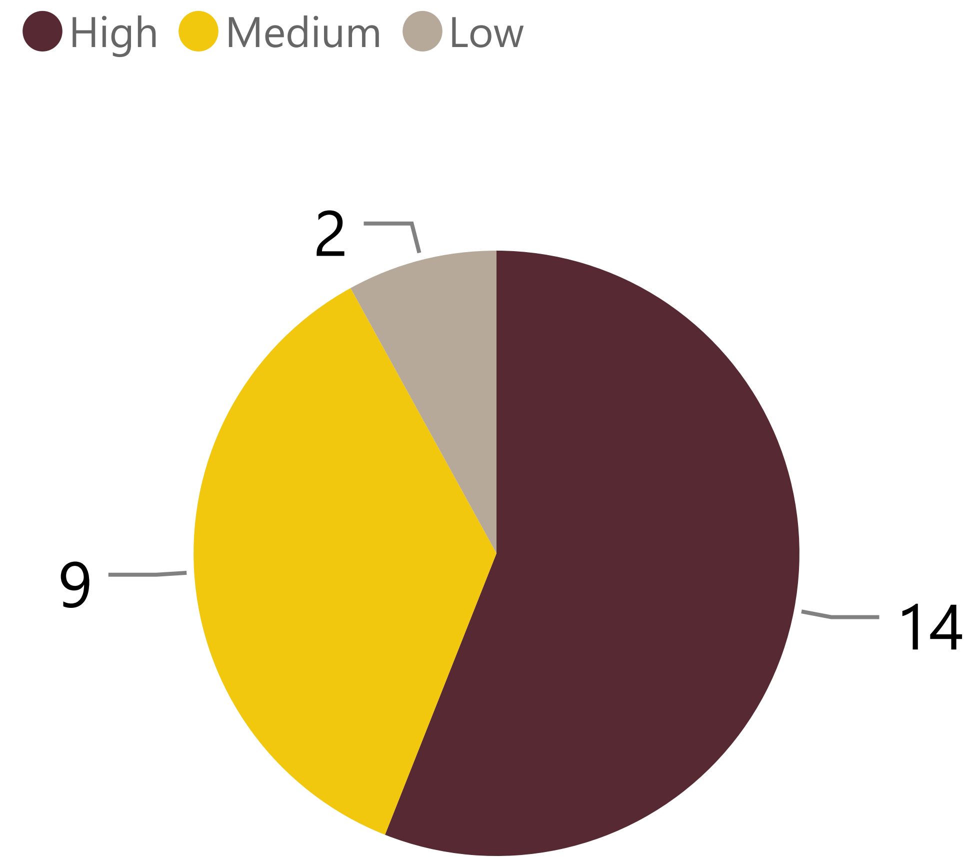
On site (units)



Due on site (units)



Project Engagement

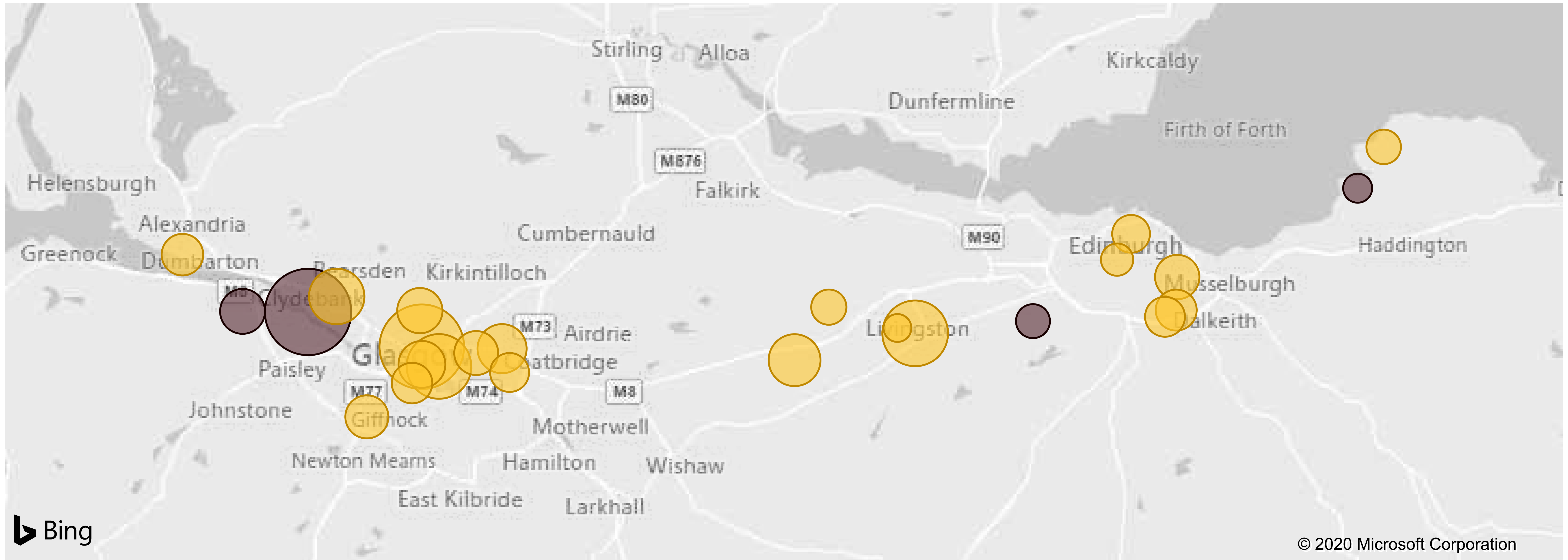


Pipeline (projects)

Stat	Cube	Dunedin Canmore	GHA	Loretto	WLHP	Total
A	4	16	7	3	5	35
B	5		5			10
C			4			4
Total	9	16	16	3	5	49

A. Potential
B. Scheme Agreement
C. Initial Design
D. Tender Period

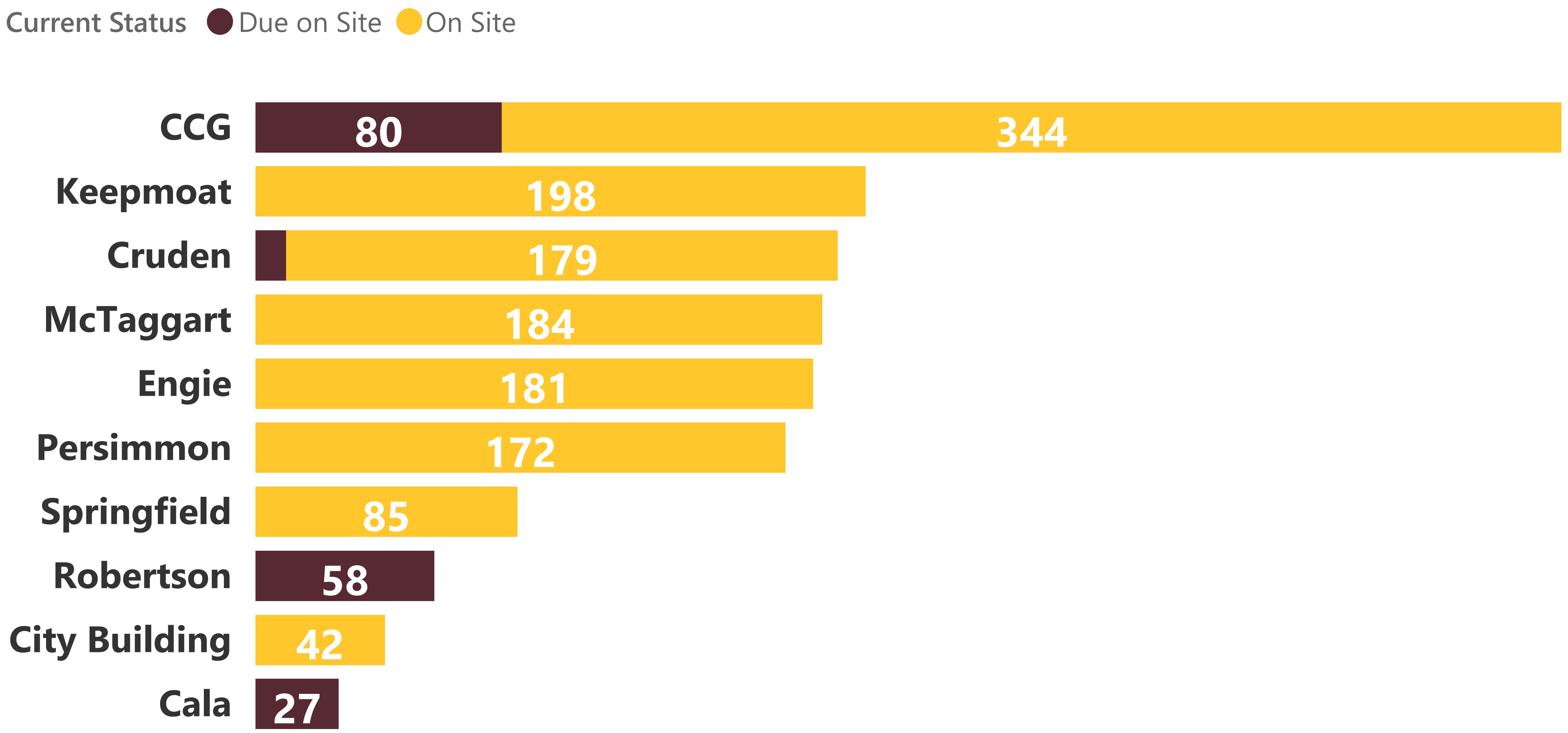
Programme Distribution (value of contract)



Contractor Exposure

Wheatley Group

Number of Units per Contractor / Developer



Total Value of Contracts (millions)

Current Status	Due on Site		On Site		Total	
Contractor / Developer	Projects	Costs	Projects	Costs	Projects	Costs
CCG	1	£26.80	6	£48.04	**7**	**£74.84**
McTaggart			3	£27.48	**3**	**£27.48**
Keepmoat			1	£26.03	**1**	**£26.03**
Engie			3	£25.92	**3**	**£25.92**
Cruden	1	£1.40	3	£21.46	**4**	**£22.86**
Persimmon			4	£21.96	**4**	**£21.96**
Springfield			1	£11.52	**1**	**£11.52**
Robertson	1	£8.42			**1**	**£8.42**
City Building			1	£4.14	**1**	**£4.14**
Cala	1	£3.58			**1**	**£3.58**
Total	**4**	**£40.19**	**22**	**£186.54**	**26**	**£226.73**

Report

To: Wheatley Housing Group Board

By: Tom Barclay, Group Director of Property and Development

Approved by: Martin Armstrong, Group Chief Executive

Subject: Group Five Year Development Programme

Date of Meeting: 19 February 2020

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1. Purpose

1.1 To seek Group Board approval of the Group wide five year development programme.

1.2 A presentation on the five year programme will be made at the meeting.

2. Authorising context

2.1 The overall strategic direction and associated priorities of the Group are reserved to the Wheatley Housing Group Board. In relation to the development programme, this includes the geographical areas in which we operate.

2.2 The responsibility for governance oversight of the Group development programme and the approval of new projects now rests with the Group Development Committee, in line with the Committee's terms of reference approved by the Wheatley Housing Group Board.

2.3 A copy of the five year development programme was considered by the Group Development Committee on 23 January 2020 and recommended to the Group Board for approval. A copy of the respective programme for each RSL is being presented to each RSL Board in the February 2020 cycle of meetings.

3. Risk appetite and assessment

3.1 The Group's risk appetite in respect of the new build development programme is "open", which is defined as "*willing to choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward*".

3.2 Our future strategic direction envisages an ongoing development programme, beyond the assumptions in our current strategy. At Group level this is in the order of 650 units per annum. Our development programme represents a significant element of the Group's expenditure, in the form of borrowing to fund construction. We currently spend c.£100m across the Group on development-related activity.

3.3 The income from the construction of new homes represents a correspondingly significant element to increasing rental income to continue to service borrowing. Additionally, the development programme plays a key role in reducing unit management costs for developing RSLs, as overheads are spread over a greater number of units.

3.4 A key risk is that we do not identify a pipeline of development opportunities to realise our assumed development programme at Group and RSL level. This could lead to us not constructing enough units to repay our borrowing levels or achieve assumed reductions in management cost levels. A further headline risk is Grant availability beyond March 2021. This is a major focus across all developing RSLs and local authorities. It is likely to be later this calendar year (summer 2020) before there is housing budget certainty for 2021/22.

4. Background

4.1 Over the period from 2014/15 we have completed 3,687 new affordable homes. Our current Group business plan assumes we will complete over 4,000 units of affordable housing new supply units over the five financial years from 2020/21.

4.2 Table 1 below sets out the breakdown of the planned east and west programmes. Table 2 sets the programme by RSL and Table 3 below by tenure. The DGHP programme is indicative at this stage.

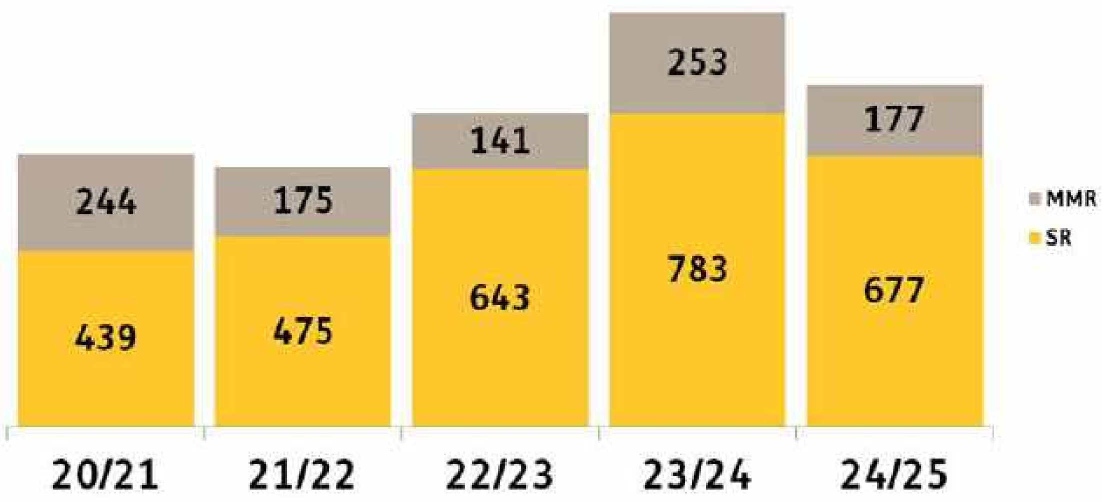
Table 1 – East, West and South programmes

Team	20/21	21/22	22/23	23/24	24/25	Total
East	188	236	300	347	212	1,283
West	478	363	324	319	237	1,721
South	17	51	160	370	405	1,003
	683	**650**	**784**	**1036**	**854**	**4,007**

Table 2 – programme by RSL

RSL	20/21	21/22	22/23	23/24	24/25	Total
Cube	0	75	107	59	0	241
DC	0	185	248	321	212	966
GHA	478	198	161	230	237	1304
Loretto	0	90	56	30	0	176
WLHP	188	51	52	26	0	317
DGHP	17	51	160	370	405	1,003
						4,007

Table 3 – Group programme by tenure



4.3 As part of our Group promise to Dumfries and Galloway Housing Partnership we have committed to supporting DGHP to deliver circa 1,000 new homes over a five year period from 2020/21. We are at the initial stages of working with the DGHP team to assess the draft development programme, identify development opportunities with key strategic partners, principally Scottish Government and Dumfries & Galloway Council and mature our understanding on the constraints and challenges that will be faced in our South programme, namely: housing need and demand, limited contractor capacity, likelihood of significant prelim costs etc.

4.4 The DGHP Development Committee held it's inaugural meeting on 20 January 2020. This is a new part of the DGHP governance structure that had been planned for some time by the DGHP Board. It is also in recognition of the specific need for more scrutiny and governance on development in DGHP given a number of legacy issues in the DGHP programme.

5. Discussion

Development Footprint

5.1 An important consideration for our future pipeline is understanding the areas where opportunities may emerge. For the Group RSLs this will be driven by the respective local authority housing strategy and the Strategic Housing Investment Programme that flows from it.

5.2 The Wheatley Group Board in April 2019 considered feedback from residential market research and analysis, undertaken for us by Savills to consider potential new markets for the group. Based on the research, coupled with our existing stock footprint, the Board agreed that:

- we maintain the overarching East and West programme groupings;
- our East Programme should extend to include Stirling local authority area;
- Cube and Loretto should extend their development footprint to include: Falkirk, Renfrewshire, East Dunbartonshire and South Lanarkshire council areas;
- DCH to continue to be the principal developer in Edinburgh and Lothians;
- WLHP should retain its development footprint in West Lothian only; and
- GHA will be our principal developer for the City of Glasgow, and over time will consider development in Greater Glasgow.

5.3 An update on the strategic drivers for our development programme was presented to the Group Development Committee in January 2020that summarised strategic housing information in each of the local authorities where our programme is active or is proposed.

5.4 The planning of our programme involves discussions with the respective local authorities in addition to signalling of our interest in these areas to our network of private sector developer contacts. A short presentation on the five year development programme and the key strategic housing drivers, will be made at the meeting.

Development appraisal criteria

5.5 The Group Development Committee in October 2019 approved the criteria that forms the basis for assessing new development opportunities. On the basis that proposed projects are included in the respective RSL's approved five year development programme, the following criteria must also be met for any new development project to be eligible for approval:

Criteria	Measure/Test
Local Housing Strategy	Contribute to the Local Housing Strategy of the respective local authority. The project appraisal should detail which of the LHS outcome(s) the project will contribute.
Building and strengthening strategic partnerships/ relationships	Contribute to strengthening our relationship with local authorities and developers. The appraisal will identify the strategic partnerships and/or relationships to which the project will contribute.
Improving customer choice	The housing mix will be developed in consultation with RSL Housing Management and respond to known and anticipated housing need for social rented housing and in conjunction with Lowther Homes for our future mid-market rent programme.
Housing Market Areas	Within the agreed local authority areas unless otherwise agreed with the Group Board and the respective RSL.
Internal Rate of Return	The Internal Rate of Return shall be a minimum of 6.2%
Debt	Borrowing required would not exceed total assets.
Borrowing	Borrowing will be repaid within 30 years.

Valuation Growth	Projects will be valuation positive on our balance sheet and assumed to deliver valuation growth within 3 years.

5.6 Accordingly, the Group Development Committee would have authority to approve projects where they meet the criteria. This allows a balance between a strategic programme role, and the ability to set clear parameters for projects to proceed.

5.7 Where any of these criteria are not met the project may be referred by the Group Development Committee, where it considers there to be an exceptional reason for proceeding, to the respective RSL Board for consideration.

Group Development Programme

5.8 Attached at appendix 1 is the Group five year Development Programme. The RSL Boards in their February 2020 cycle of meetings will consider their respective five year development programmes.

5.9 The Group wide programme is aggregated up from our RSL's five-year Programmes. The summary information attached sets out our five year development programme by RSL subsidiary and by tenure.

5.10 The Group Development Committee is also responsible for the allocation of funds from the Group Development Fund. The Committee would continue to do so from a position of group-wide oversight of the development programme.

6. Key issues and conclusions

6.1 The Group five year development programme sets out an ambitious and challenging programme that would continue to see Wheatley being a key delivery partner for Scottish Government in the provision of new supply affordable housing.

6.2 The Group Development Committee in recent discussions has noted the remaining uncertainty on the likely scale of funding for affordable housing beyond 2021. We will continue to stay closely engaged with senior Scottish Government officials in monitoring this position and will report back to the Board and Group Development Committee as future grant funding arrangements become clearer across each of our local authority areas.

7. Value for money implications

7.1 The extension of the geographical areas in which the Group will consider developing, as well as the increased agility, following the establishment of the Group Development Committee, will support us in seeking to secure value for money. This can be achieved via both our use of Group and external contractor frameworks and our consultant frameworks, combined with seeking to extend developer partnerships giving rise to more development opportunities.

7.2 This combination will allow us to achieve tangible benefits for tenants as increased efficiency can enable us to deliver better value for money.

8. Impact on financial projections

8.1 Our business plan assumes c£650m of development over the next five years, with the Group programme currently running at c.£100m per year. The successful delivery of the development programme helps us realise the wider assumptions within our financial projections.

9. Legal, regulatory and charitable implications

9.1 On a regular basis details of the Group development programme are shared with the Scottish Housing Regulator. The SHR has been briefed on the Group's new Development governance arrangements.

10. Partnership implications

10.1 The Group has a number of key strategic partners in the delivery of the development programme: Scottish Government More Homes Division, the TMDF authorities in Edinburgh and Glasgow, and the other local authorities in our operating areas. In addition, we have a number of important relationships with developers, housebuilders, Homes for Scotland and various land agents.

10.2 For some of our new geographies we continue to build relationships (e.g Dumfries & Galloway) with local authorities and identify potential opportunities to increase the number of tangible opportunities we can consider for our future development programme.

11. Equalities impact

11.1 Within the programmes, all new build units are designed to Housing with Varying Needs (Part 1), as integrated into the 'Glasgow' and 'Edinburgh' mandatory standards promoted by the respective local authorities. The inclusion of wheelchair units on a number of sites is a standard funding requirement.

12. Recommendations

12.1 The Group Board is asked to:

1) approve the Group five year development programme as summarised in this report;
2) note that the five year development programme will be reviewed annually and presented in the February of each year, in conjunction with the presentation of the Group Business Plan; and
3) note that a report and presentation of the respective development programme is planned to each RSL Board for approval, in the February 2020 cycle of meetings.

List of Appendices

Appendix 1 – Group five year development programme

Group Five Year Development Programme

Table 1 – East, West and South programmes

Team	20/21	21/22	22/23	23/24	24/25	Total
East	188	236	300	347	212	1,283
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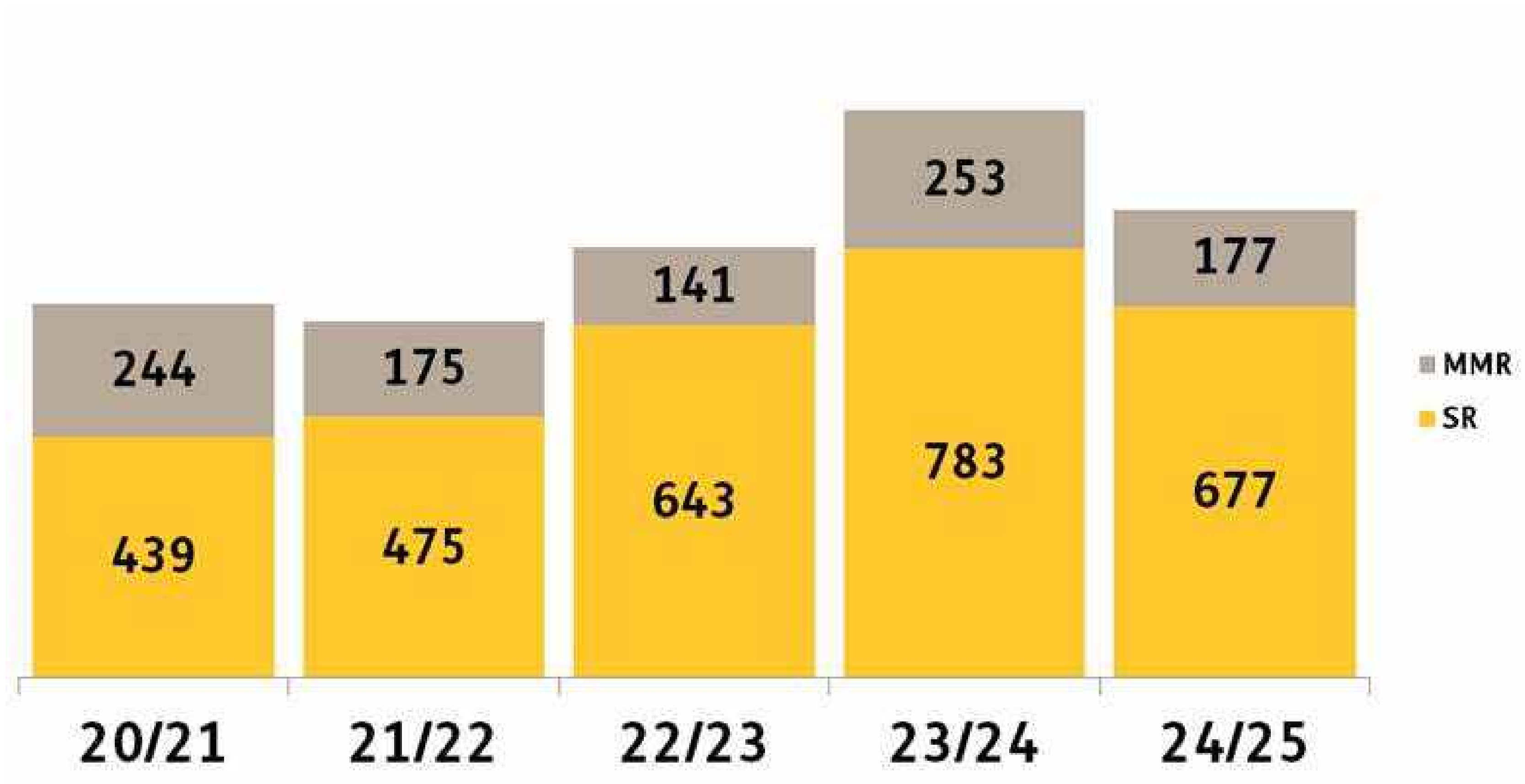
Table 2 – Group programme by RSL

RSL	20/21	21/22	22/23	23/24	24/25	Total
DC	0	185	248	321	212	966
WLHP	188	51	52	26	0	317
GHA	478	198	161	230	237	1304
Cube	0	75	107	59	0	241
Loretto	0	90	56	30	0	176
DGHP	17	51	160	370	405	1003
						4,007

RSL Programme – projected completions

Wheatley Group



MMR	990 units
Social Rent	3,017 units

RSL Programme – projected completions by tenure

Wheatley Group

Project	Local authority	Social rent	Mid-market rent	2020.21	2021.22	2022.23	2023.24	2024.25
South Gilmerton	CEC	52			52			
Newmills Road, Balerno Ph 2	ELC	12	15		27			
The Wisp 3C	CEC	34			34			
MacMerry	ELC	36			36			
Kirkliston	CEC	26			26			
Longniddry	ELC		10		10			
Wallyford Ph 2	ELC	46	14			60		
West Craigs Plot 4	CEC	112	40			30	100	22
Lanark Road	CEC	12				12		
Greendykes Ph 5	CEC	25				25		
Edmonstone Ph 1	CEC	60	20			80		
Dundas Street, Edinburgh	CEC		41			41		
Newtongrange	MLC	18					18	
Old Craighall Ph 2	ELC	20	18				38	
Bonnyrigg	MLC	40					40	
Gavieside Ph 1	WLC	85	40				125	
Wallyford Ph 3	ELC	30	10					40
West Craigs Plot 5	CEC	80	60					140
Stirling project	SC	10						10
Total		**698**	**268**	**0**	**185**	**248**	**321**	**212**

DCH Five Year Development Programme

Project	Local authority	Social rent	Mid-market rent	2020.21	2021.22	2022.23	2023.24	2024.25
Jarvey Street	WLC	42		42				
Almondvale	WLC	120	26	146				
Winchburgh Ph 3	WLC	20			20			
Harthill	NLC	31			31			
Blackness Road	WLC	14				14		
Raw Holdings	WLC	38				38		
Winchburgh Ph 2	WLC	26					26	
Total		**291**	**26**	**188**	**51**	**52**	**26**	**0**

WLHP Five Year Development Programme

Total	Social rent	Mid-market rent	2020.21	2021.22	2022.23	2023.24	2024.25
Auchinlea	64		64				
Linkwood	80		80				
Bellrock	19		19				
Kennishead	48		48				
Baillieston		37	37				
Inglefield		49	49				
Sighthill		198	86	46	66		
Watson Street		46	46				
Scaraway	49		49				
Damshot	26			26			
Carnwadric	22			22			
Dovehill		32		32			
Hurlford Avenue		72		72			
Shandwick	60				60		
Kinfauns Drive	35				35		
Calton Village Ph 1		120				120	
Shawbridge Street		35				35	
Cleeves Road	25					25	
Abbothall	50					50	
Broomloan	50						50
Dougrie	50						50
Calton Village Ph 2		98					98
Calton Village Ph 3	30	9					39
Total	**608**	**696**	**478**	**198**	**161**	**230**	**237**

GHA Five Year Development Programme

Project	Local authority	Social rent	Mid-market rent	2020.21	2021.22	2022.23	2023.24	2024.25
Sawmill Field	A&B	35			35			
Queen’s Quay	WDC	80			40	40		
Crofthead	EDC	14				14		
South Crosshill Road	EDC	36				36		
Gartcosh	NLC	17				17		
Ferniegair	SLC	43					43	
Lenzie	EDC	16					16	
Total		**241**		**0**	**75**	**107**	**59**	**0**

Cube Five Year Development Programme

Project	Local authority	Social rent	Mid-market rent	2020.21	2021.22	2022.23	2023.24	2024.25
Hallrule Drive	GCC	32			32			
Dargavel Ph 2	REN	58			58			
Cobblebrae Farm	FAL	21				21		
McDowall Street	REN	35				35		
Finlaystone Road	INV	30					30	
Total		**176**		**0**	**90**	**56**	**30**	**0**

Loretto Five Year Development Programme

Project	Local authority	Social rent	Mid-market rent	2020.21	2021.22	2022.23	2023.24	2024.25
Monreith	DGC	5		5				
Sanquhar	DGC	12		12				
Nursery Ave, Stranraer	DGC	19			19			
Lincluden, Dumfries	DGC	32			32			
Thornhill	DGC	50				50		
Johnstonebridge	DGC	30				30		
Springholm	DGC	40				40		
Eastriggs	DGC	18					18	
To be identified	DGC	797				40	352	405
Total		**1003**		**17**	**51**	**160**	**370**	**405**

Loretto Five Year Development Programme

Report

To: - **Wheatley Housing Group Board**

By: - **Tom Barclay, Group Director of Property and Development**

Approved by: - **Martin Armstrong, Group Chief Executive**

Subject: - **DGHP New Build 'Four Priority Projects'**

Date of Meeting: - **19 February 2020**

---

1. Purpose

1.1 To seek Board approval for Dumfries and Galloway Housing Partnership Limited ("DGHP") to enter building contracts for the delivery of four new build projects to construct 68 units of new build social rent housing in the following locations:

- Queensberry Square, Sanquhar (12 units);
- St Medans, Monreith (5 units);
- The Lincluden Stables, Lincluden (32 units); and
- Nursery Avenue, Stranraer (19 units).

1.2 The four projects do not meet the previously agreed Group target for rate of return on individual development projects so are being referred to the Group Board for consideration, in the context of the wider issues surrounding the DGHP development programme.

2. Authorising context

2.1 The Group Authorising Framework provides that each member of the Group is responsible for their own new build development programme. These projects are within the parameters of DGHP's 2020/21 business plan.

2.2 Individual reports on the four new build projects are in the process of being considered for approval by the DGHP Development Committee and thereafter the DGHP Board. The Monreith project was approved by the DGHP Board on 29 January 2020 on the basis of a direct award to McTaggart Construction. The DGHP Board having reflected on the high costs of the Monreith project agreed to seek a second tender and invited City Building to submit a construction cost for this project. The City Building tender has now been received and is being assessed with a view to reporting back to the DGHP Development Committee on 17 February 2020 and thereafter, to the DGHP Board on 26 February 2020.

2.3 Reports on the Sanquhar and Lincluden projects are being presented to the DGHP Development Committee on 17 February 2020 and, if recommended for approval, to the DGHP Board on 26 February 2020. The tender for the Nursery Avenue, Stranraer project will not be returned till 23 March 2020, so this project will be presented to DGHP Development Committee in April 2020 and to the DGHP Board in May 2020. Accordingly, this report outlines cost plan information on Nursery Avenue in advance of the concluded tender report.

2.4 As a consequence of timing, this report is presented to the Wheatley Group Board in advance of DGHP Board on 26 February 2020. The report provides background on the four projects and seeks approval for DGHP to proceed to enter into contract for these projects with a view to advancing as a priority site starts in March and April 2020.

2.5 Proceeding on this basis has been identified as a priority by DGHP Board and in our discussions with Scottish Government (as grant funder) and Dumfries & Galloway Council (in their role as strategic housing authority).

3. Risk appetite and assessment

3.1 The risk appetite for the new build development programme is defined as open; "willing to choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (and value for money etc.)".

3.2 The information within this report remains commercially sensitive. Ashleigh (Scotland) Limited (contractor proposed for the Sanquhar and Lincluden projects), City Building (for the Monreith project) and McTaggart Construction (contractor proposed for the Nursery Avenue, Stranraer project) have been advised that concluding the procurement process is subject to Wheatley Housing Group Board and DGHP Board approval.

4. Background

4.1 DGHP had a history of substantial development activity in previous years however they currently do not have a live programme. The last completed project was in 2017/18.

4.2 Staff capacity in the DGHP Development Team is very limited with currently a reliance on external consultants to co-ordinate the proposed development programme. Since November 2019 Wheatley Solutions have provided a member of the Group Development Team two days a week to assist in progressing the four projects to Board consideration and site start.

4.3 We are also in the process of recruiting a new Development Manager to lead the DGHP Development Team. The team will be based in Dumfries and be part of our Wheatley Solutions Group Development Team.

4.4 Following discussion with Dumfries & Galloway Council (DGC) and the Scottish Government, four development projects have been prioritised by DGHP for site start and initial grant draw down within the current financial year, if possible. The projects feature in the DGC Strategic Housing Investment Programme. Advancing the projects to site start is a key component in DGHP's turnaround strategy to rebuild their development reputation with both Dumfries & Galloway Council and the Scottish Government.

4.5 The sites for all four projects have been in DGHP ownership for some years. The DGHP Board was sighted recently that the land for all four of the projects were acquired without full diligence and scheme appraisals. It is clear that all of these projects will be costly to deliver.

4.6 The Scottish Government has confirmed their intention to award Grant funding to three of the four projects in 2019/20 and 2020/21.

4.7 Funding for the fourth project, Nursery Avenue, Stranraer was received in full by DGHP in 2009. Grant was awarded as part of a larger Neighbourhood Renewal project in Stranraer & Dumfries which was to deliver 312 new homes across five sites, including Nursery Avenue. The other four sites were completed by DGHP and remaining grant funding of £2,021,340 (£101,067 per unit) is available to deliver the 19 units at Nursery Avenue, Stranraer.

4.8 Taken together the four projects represent the start of the DGHP/Wheatley Group promise to our customers and partners to deliver 1,000 affordable homes across the region by 2025.

5. Discussion

5.1 All of the new DGHP homes across the four projects are planned for social rent housing. As indicated above, the Nursery Avenue project is at cost plan stage, so cost information on this project is presented on that basis. Tendered costs for Nursery Avenue will in due course be presented to the DGHP Board and an update provided to the Group Board.

5.2 Table 1 below summarises the headline financial details for the four projects.

Table 1 – proposed DGHP new build projects

Project	No.	Housing mix	Contractor	Total cost	Cost per unit	Cost m2	Cost per bedspace
Queensberry Square, Sanquhar	**12**	**12 Bungalows**	**Ashleigh**	**£2,183,697**	**£181,975**	**£2,666**	**£54,592**
St Medans, Monreith	5	1 Bungalow 4 Houses	City Building	£1,018,872	£203,774	£2,264	£46,312
Lincluden Stables	**32**	**11 Bungalows** **15 Houses** **6 Conversions**	**Ashleigh**	**£7,487,225**	**£233,882**	**£2,486**	**£51,995**
Nursery Avenue, Stranraer	19	8 Bungalows 11 Houses	McTaggart	£4,669,438	£245,760	£2,985	£69,693

5.3 A short summary on each of the development projects is attached below to provide the Group Board with additional information on each of the planned DGHP developments. Appendix 1 provides a location plan and lay out of each project.

5.3.1 Queensberry Square, Sanquhar

DGHP purchased the site in two parcels in 2014 and 2016. The site was formerly a school which ceased to operate in the 1980's and has remained vacant ever since. Planning Permission was granted on the 29 November 2019 for a 12 unit project comprising of 12 bungalows, which is the accommodation that is most needed in this location.

There are two dwellings which are fully wheelchair accessible housing under the Housing for Varying Needs standards.

5.3.2 Monreith

DGHP purchased the Monreith site in 2017 having previously built 10 units that completed in 2015 on the adjacent site. Monreith is a very remote rural location which does impact on delivery costs.

The site was purchased from DGHP by the Small Communities Housing Trust who planned to market three plots for self-build housing. However, the Trust was unable to progress the sales and DGHP re-purchased the plots.

The approved Planning Permission is for five units: 1 Bungalow (two bed) and four family houses (two x 2Bed & two x 3Bed).

5.3.3 Lincluden Stables, Lincluden

DGHP purchased the site in March 2013. The Lincluden site and the Grade B listed stable building were previously used as a council depot. DGHP undertook various option appraisals for a 38 unit housing development that included conversion of the Category B listed stable block into dwellings.

The design has been through several iterations (with two previous planning applications withdrawn prior to determination) before a scheme was agreed with planners and submitted in May 2019. Planning Permission was granted on 15 October 2019.

The current design is for 32 houses and bungalows which offer the accommodation that is most needed within this location. The project will be delivered on a phased basis, first phase being the 26 new build units (15 houses and 11 bungalows) and the second phase will be refurbishing the stable block into 6 conversations.

5.3.4 **Nursery Avenue, Stranraer**

DGHP purchased the Nursery Avenue, Stranraer site in October 2009. The site was part of a larger Neighbourhood Renewal Project in Stranraer and Dumfries to deliver 312 new homes.

Site was acquired from the owners of the adjacent land which has a lapsed planning consent for residential development. This site formed part of the s75 affordable housing required for a larger adjacent development for sale (circa 150 units) that has not been delivered.

The original design and grant allocation was for 20 homes. The council has requested that we include a 7-bed house for one of several large families identified as requiring housing. The proposed scheme therefore is for 19 homes (11 houses and 8 bungalows) which offer the accommodation that is most needed within this location.

5.4 In light of the high development costs for these projects, where possible we are seeking above benchmark Grant funding from Scottish Government. We have also considered other funding sources, including from Dumfries & Galloway Council.

5.5 DGHP Housing Services has confirmed support for the four schemes, advising that we will be able to allocate these properties as there is demand in all of the areas for the property types that will be delivered.

5.6 The projects have been procured by a direct award under the Group’s contractor framework. The contractors selected for the projects are Ashleigh (Scotland) Ltd. for Sanquhar and Lincluden projects. With McTaggart Construction selected for the Nursery Avenue, Stranraer project. The Group’s Procurement Team has supported the Development Team in this process.

5.7 As outlined earlier in this report, a tender was invited by the DGHP Board from City Building for the Monreith project. This was as a result of the extremely high costs for this project and following an initial tender from McTaggart Construction. The City Building tender is currently being analysed however it indicates a lower value than that submitted by McTaggart, so the City Building price has been inserted in tables 1 and 2.

5.8 We have agreed that for these projects a single stage traditional type SBCC Standard Building Contract with quantities be used**.** Future DGHP schemes are likely to move to a Design and Build contract, like the majority of projects in the Group development programme.

6. Key issues and conclusions

6.1 Re-establishing a significant development programme is one of the corner stones for the DGHP Board and the Group's in the turn-around strategy for DGHP. Progressing to site start the four legacy projects represents a first phase in progressing the development programme and delivering on promises made to our customers, Dumfries & Galloway Council and the Scottish Government to deliver up to 1,000 new homes in the region.

6.2 Accordingly, although the Group's target rate for IRR on affordable housing schemes cannot be met for any of the four legacy projects the DGHP Board wish to proceed to deliver these projects. This will help begin to build confidence from our partners and reputation locally that DGHP can again return to be a developing RSL in Dumfries & Galloway.

6.3 The DGHP Board has been fully briefed on the lack of diligence and appraisal that underpinned the sites when acquired and on the high costs now associated with development of these projects. The DGHP 2020/21 Business Plan, recommended to the Group Board for approval on this agenda, has assumed delivery of these four projects at a total development cost in excess of that now secured in commercial negotiations with our contractors and through Grant rates now sought.

7. Value for money implications

7.1 The four legacy projects are expensive development sites that do not return on investment in line with the Group's usual performance target of 6.2%. This has been accounted for in the context of the DGHP 2020/21 Business Plan.

7.2 Each site has a number of factors including:

- small size of a number of the developments;
- rural location; and
- high preliminary costs.

In the case of the Lincluden Stables project, the comprehensive conversion of a 'B' Listed former stables block contributes significantly to project delivery costs. DGHP acquired from DGC the stables block which has been derelict for nearly a decade, and where there is a planning requirement to retain and develop the block to deliver six affordable units, alongside the twenty six new build homes.

7.3 To abandon the four schemes at this stage would involve significant reputational damage for both DGHP and the Group at a time when we are working to re-build relationships with our key partners & funders. We would also require to cumulatively pay back grant to both the Scottish Government (£2,463,472) and Dumfries & Galloway Council (£100,000) in addition to writing off abortive fees committed to date of circa £864,000.

7.4 In effect we are proposing to further subsidise these four legacy schemes to regain DGHP credibility and support for future development from DGC and the Scottish Government.

8. Impact on financial projections

8.1 Negotiations have been on-going regarding the scheme costs for each of the sites. The latest position on each is summarised in table 2 table and reflected against the current DGHP business plan assumptions.

Table 2 – business plan costs vs latest tender/cost plan* figures

Scheme	Units	Business Plan	Tender or Cost Plan*	Saving
Lincluden	32	£7,943,117	£7,487,225	£455,892
Sanquhar	12	£2,339,899	£2,183,697	£156,202
Monreith	5	£1,450,128	£1,018,872	£431,256
Nursery Avenue	19	£4,669,438	£4,669,438*	£0
TOTAL	**68**	**£16,402,582**	**£15,359,232**	**£1,043,350**

8.2 These negotiations have achieved savings against business plan across three of the sites totalling £1.04m, and we await an updated position on Nursery Avenue following tender submission.

8.3 The DGHP business plan assumed that each project would obtain grant at Scottish Government benchmark levels (approximately £88k per unit across these projects). Given the very high construction costs, this will not be sufficient to allow the projects to achieve our target return level of 6.2%.

8.4 DGHP's estimated 30-year average annual cost of borrowing, based on its business plan, is 4%. Even working to this "bare" assumption that the project discount rate has no risk margin, only Sanquhar would have a positive return, as shown in table 3 below:

Table 3 – project returns at benchmark grant (* Represents a Cost Plan Figure until tender return)

Scheme	Units	Cost	Grant rate	NPV @ 4%	NPV Per Unit @ 4%	IRR	Payback Period
Lincluden Stables	32	£7,487,225	£2,669,892	(£1,368,721)	(£42,773)	1.70%	>30 yrs
Sanquhar	12	£2,183,697	£1,054,533	£10,716	£893	4.10%	30 yrs
Monreith	5	£1,018,872	£412,920	(£83,893)	(£16,779)	2.97%	30 yrs
Nursery Ave	19	£4,669,438*	£2,021,340	(£743,081)	(£39,110)	1.72%	>30 yrs
Total	**68**	**£15,359,232**	**£6,158,685**	**(£2,184,979)**			

8.5 The Scottish Government has confirmed Grant funding for the Sanquhar project and is included in the above figures. As noted at 4.7 above Grant for the Nursery Avenue project has been received by DGHP. We have applied for higher grant levels in the Lincluden and Monreith projects of £110k and £99k per unit respectively, and this will be subject to further assessment by the Scottish Government prior to a final decision. Even with this higher grant, two of the projects still produce negative net present values, as shown in table 4 below:

Table 4 – project returns at improved grant rates

Scheme	Units	Cost or Cost Plan*	Grant rate	NPV @ 4%	NPV Per Unit @ 4%	IRR	Payback Period
Lincluden Stables	32	£7,487,225	£3,519,883	(£518,730)	(£16,210)	3.00%	>30 yrs
Sanquhar	12	£2,183,697	£1,054,533	£10,716	£893	4.10%	30 yrs
Monreith	5	£1,018,872	£497,000	£207	£41	4.00%	30 yrs
Nursery Ave	19	£4,669,438*	£2,021,340	(£743,081)	(£39,109)	1.72%	>30 yrs
Total	**68**	**£15,359,232**	**£7,092,756**	**(£1,250,888)**			

8.6 This improved grant scenario would improve the overall negative estimated net present value (i.e. economic cost to DGHP) by c£0.9m.

8.7 These projects do not deliver the kind of economic returns our new build appraisal framework requires. However, given their strategic importance, and the fact that they were already budgeted for in the DGHP business plan at higher net costs, we propose to aim to achieve the position shown in table 4, and no worse than that in table 3.

9. Legal, regulatory and charitable implications

9.1 The Scottish Housing Regulator seeks regular updates on our new build programme and funding position. There are no consents required for this project from the Scottish Housing Regulator. The provision of housing for those in need is within DGHP's permitted aims and meets the charity test contained in the Charity and Trustee Investment (Scotland) Act 2005.

9.2 Taking this opportunity forward is considered to be in the best interests of DGHP and the Group and contributes to our strategic growth plans.

9.3 In terms of this proposal:

- Building contracts will only be concluded with Ashleigh (Scotland) Limited, McTaggart Construction Limited and City Building (Contracts) following Wheatley Housing Group Board and DGHP Board approval;
- All statutory consents have been obtained by DGHP. There are no consents required from the SHR; and
- There are no legal or regulatory consultation requirements with tenants.

10. Partnership implications

10.1 Delivery of the four projects will contribute to the Group's & DGHP's commitment to providing 1,000 new homes for the region.

10.2 The proposed four projects provide an opportunity to re-build our reputation locally and demonstrate to both DGC and the Scottish Government that we can deliver new affordable homes for the region.

11. Implementation and deployment

11.1 The Group Development Team will manage the delivery of the projects. Subject to DGHP Board and Wheatley Group Board approvals, the intention would be to target finalisation of contracts and commence on site in March/April 2020. Completion of the units is anticipated by March 2021, where possible.

12. Equalities impact

12.1 The properties across all four projects have been designed to meet requirements of Part 1 of Housing for Varying Need.

13. Recommendations

13.1 The Wheatley Housing Group Board is asked to approve that DGHP:

1) enter into a contract with **Ashleigh (Scotland) Limited** for the construction of 12 homes of social rent housing at Queensberry Square, Sanquhar, at a construction cost of **£1.85m** and a total development cost of **£2.18m;** inclusive of land costs;

2) enter into a contract with **Ashleigh (Scotland) Limited** for the construction of 32 homes of social rent housing at Lincluden Stables, Lincluden at a construction cost of **£6.64m** and a total development cost of **£7.49m,** inclusive of land costs;

3) enter into a contract with **City Building (Contracts)** for the construction of 5 homes of social rent housing at Monreith, at a construction cost of **£0.83m** and a total development cost of **£1.02m,** inclusive of land costs;

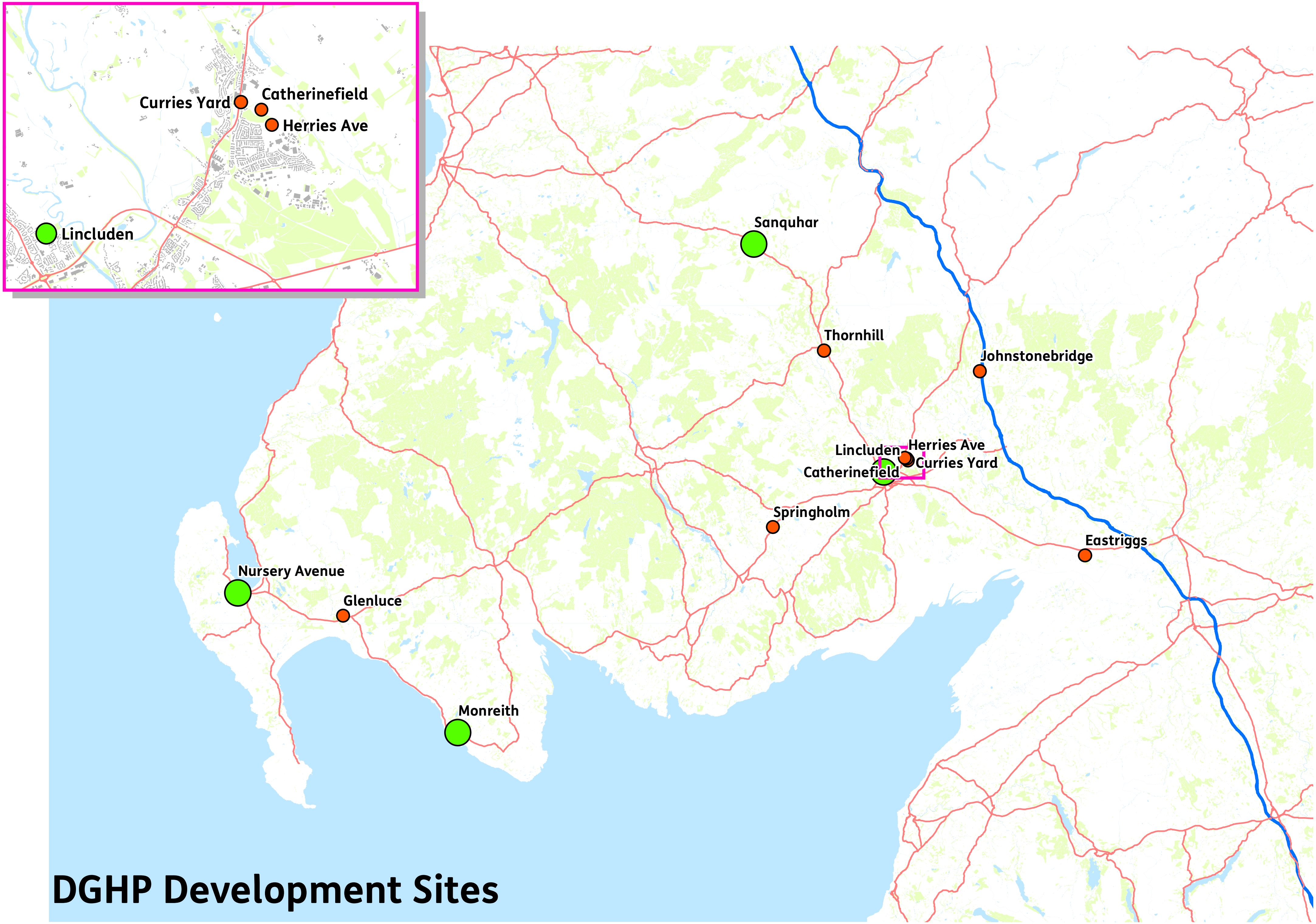
4) enter into a contract with **McTaggart Construction** for the construction of 19 homes of social rent housing at Nursery Avenue, Stranraer, at a maximum total development cost of **£4.70m**, inclusive of land costs; with

5) all of the above being subject to a minimum grant level of **£6.16m** being awarded as set out in table 3 of this report.

6) note that the DGHP Board will be briefed at their meeting on 26 February 2020 on the Group Board's consideration of the four priority projects.

List of Appendices

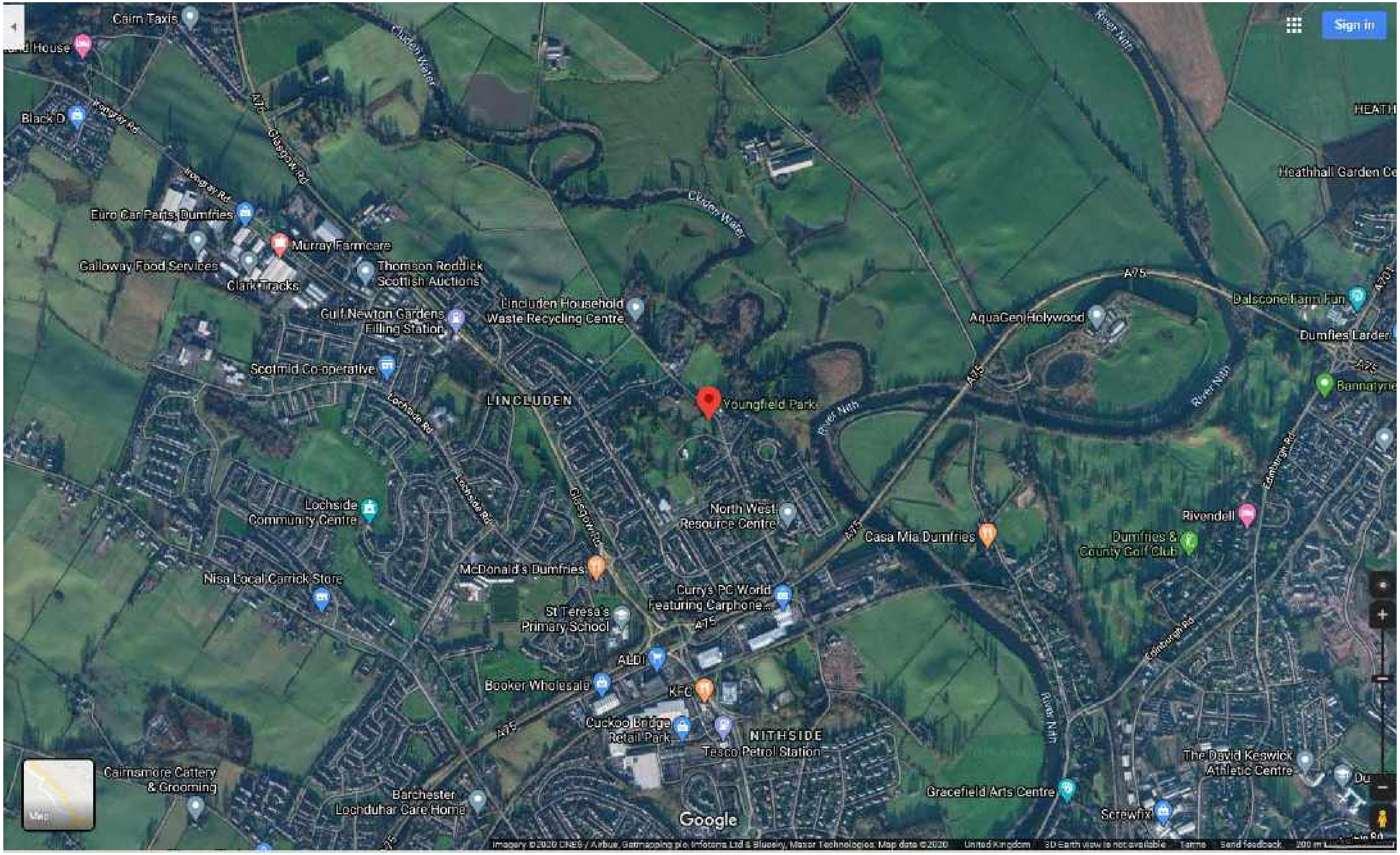
Appendix 1 – Location Plans for each project
Appendix 2 – Project layouts

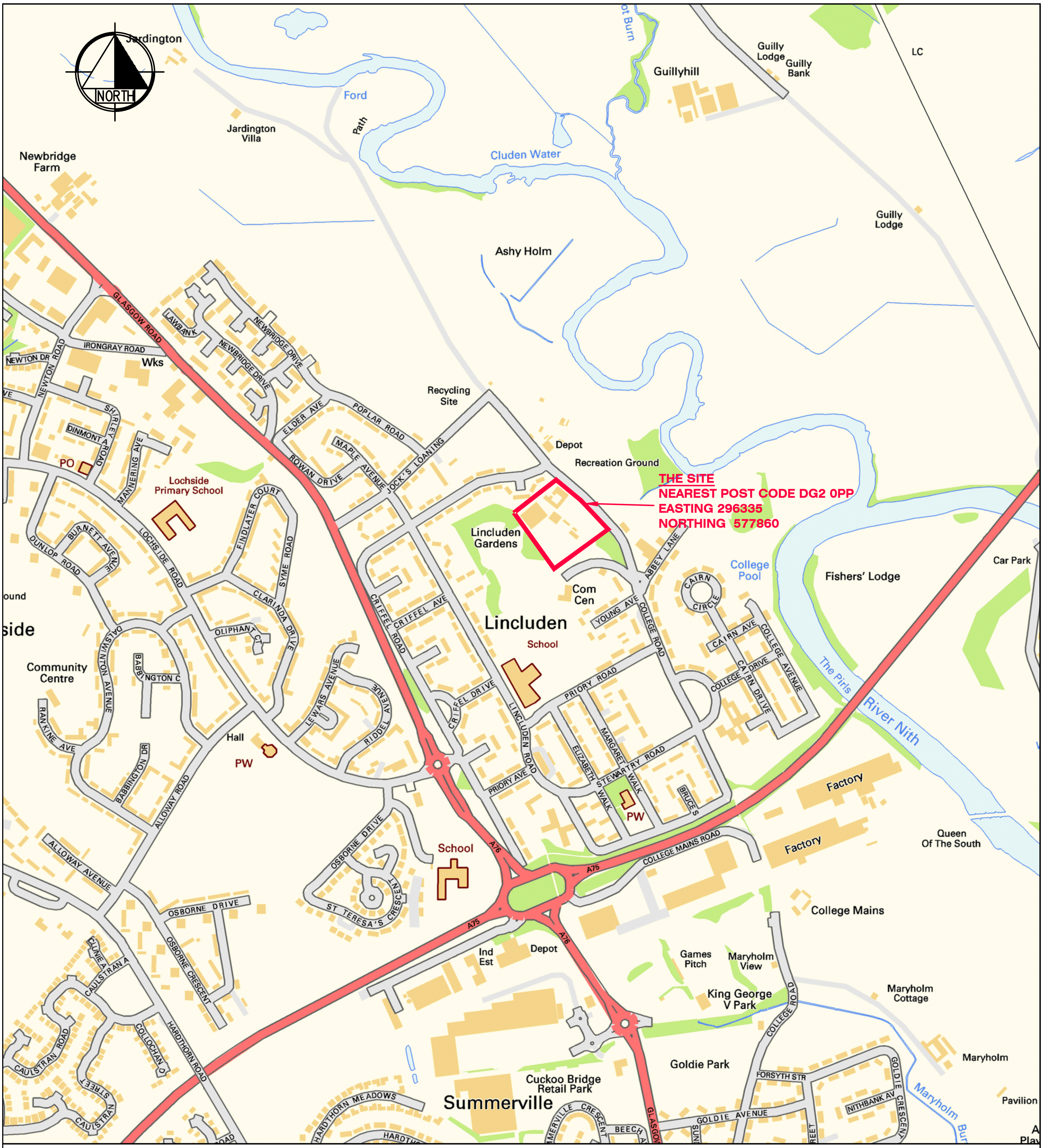


DGHP Development Sites

Working with our Tenants

LINCLUDEN Location Plan





LOCATION PLAN

KEY :

SITE BOUNDARY

Rev.	Amendment	Drawn	Date	Checked	Date	Apprd	Date
	Original A4 Drawing	PRH	28.01.20	PRH	28.01.20	PRH	28.01.20

Client

DUMFRIES AND GALLOWAY HOUSING PARTNERSHIP

Project Title

HOUSING DEVELOPMENT, LINCLUDEN GARDENS, DUMFRIES.

asher ASSOCIATES
CIVIL ENGINEERS
STRUCTURAL ENGINEERS
PROJECT MANAGERS
32 George Street, Dumfries DG1 1EH
Tel 01387 250644 www.asherassociates.co.uk

Scales	1:10,000
Job No.	AA5919
Drg. No.	AA5919/EW/110
Rev.	

0m 10m 50m

@ A1

0m 10m 50m 100m

@ A3

Site Layout 1 : 5 0 0 @A1

NOTES

DO NOT SCALE DIMENSIONS FROM THIS DRAWING.

THIS DRAWING IS NOT WARRANTED AS SUITABLE FOR TENDERING OR CONSTRUCTION PURPOSES

Site Area:

1.3373Ha or thereby

House Types:

100% affordable development

A	2B/4P General Needs House GIFA 112.78m sq.	5 No.
B	3B/6P General Needs House GIFA 154.11m sq.	6 No.
C	2B/4P Amenity Bungalow GIFA 73.27m sq.	11 No.
E	4B/7P Amenity 1/1/2 House GIFA 130.86m sq.	4 No.
	2B/4P General Needs House Conversion	5 No.
	1B/2P General Needs House Conversion	1 No.
Total No. of Units		32 No.

REVISIONS & ADDITIONS	DATE	BY

PROJECT

Proposed Residential Development, Lincluden Stables, College Road, Dumfries for DGHP

DRAWING TITLE

Site Layout as Proposed

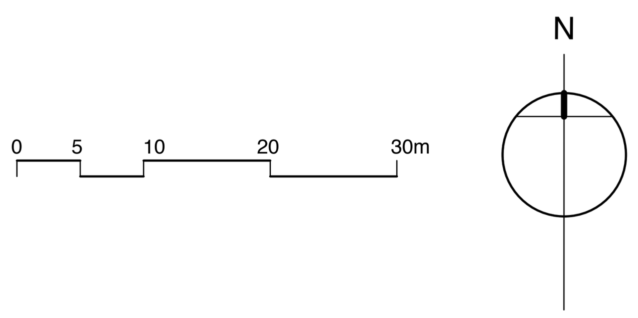
ROBERT POTTER & PARTNERS
CHARTERED ARCHITECTS & PROJECT MANAGERS

7 MILLER ROAD, AYR KA7 2AX 01292 261228
49 NEWALL TERRACE, DUMFRIES DG1 1LN 01387 255509
110 WEST GEORGE STREET, GLASGOW G2 1QJ 0141 3329111
2 KINGDOM STREET, LONDON W2 6BD 020 34795931

SCALE	1:500 @ A1 1:1000 @ A3	9256/34
DATE	October 2019	
DRAWN BY	S.McCreadie	
CHECKED BY		REVISION

Site Plan
(as proposed)

1:500



Notes

Do not scale dimensions from this drawing - if in doubt ask.
All dimensions, including figured dimensions, to be checked on site prior to commencing any works.

This drawing is not warranted for construction or tendering purposes.

Topographical Survey prepared by others.

Site Area:

1.3373Ha or thereby

House Types:

100% affordable development

A	2B/4P GIFA	General Needs House 112.78m sq.	5 No.
B	3B/6P GIFA	General Needs House 154.11m sq.	6 No.
C	2B/4P GIFA	Amenity Bungalow 73.27m sq.	11 No.
E	4B/7P GIFA	Amenity 1/1/2 House 130.86m sq.	4 No.
	2B/4P	General Needs House Conversion	5 No.
	1B/2P	General Needs House Conversion	1 No.
Total No. of Units			32 No.

	Revisions	Date	Initials
A	Site layout updated to courtyards 1-2.	11-12-18	DGB
B	Site layout updated based on engineer road design.	29-04-19	DGB
C	Site layout developed.	29-04-19	DGB
D	Site layout developed.	17-05-19	RK
E	Block names added.	30-05-19	RK
F	Plot parking spaces added and surface finishes amended.	25-06-19	RK
G	Layout updated based on comments from DGC-Roads.	12-09-19	DGB
H	Layout updated based on revised Engineer layout.	23-09-19	DGB
I	Layout updated as requested by Engineer.	10-10-19	DGB

Project

Proposed Residential Development, former Lincluden Stables, Dumfries for Dumfries & Galloway Housing Partnership

Drawing Title

Site Layout as Proposed

ROBERT POTTER & PARTNERS
CHARTERED ARCHITECTS & PROJECT MANAGERS

7 MILLER ROAD, AYR	KA7 2AX	01292 - 261228
49 NEWALL TERRACE, DUMFRIES	DG1 1LN	01387 - 255509
169 ELDERSLIE STREET, GLASGOW	G3 7JR	0141 - 332 9111
2 KINGDOM STREET, LONDON	W2 6BD	0203 - 4795931

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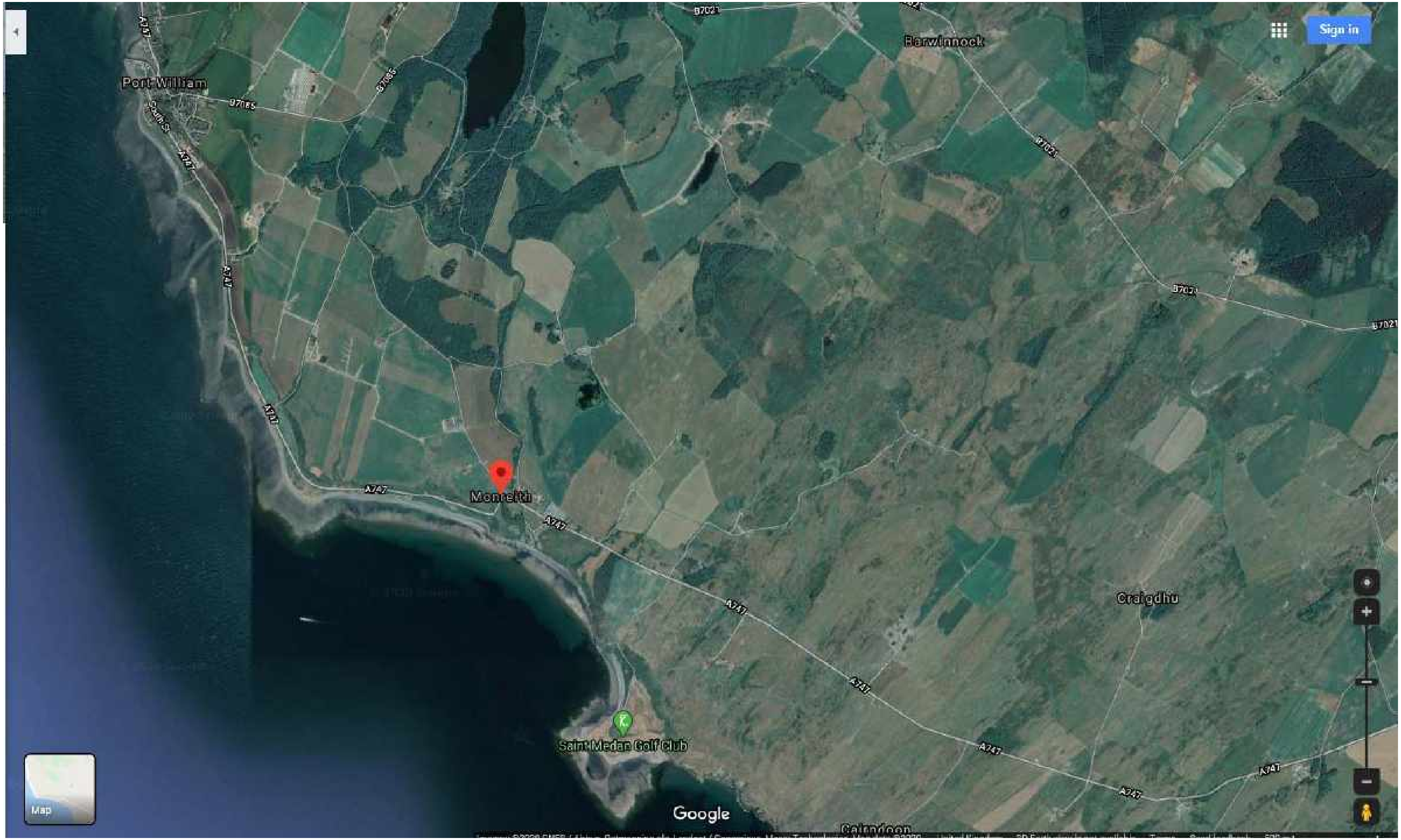
Date	Nov 2018	
Drawn By	DGB	
Checked By		Revision I



B7021
Barwinnock
Sign in
Port William
B7085
A747
B7021
Monreith
A747
Craigdhu
Saint Medan Golf Club
Map
Google
Cairndoon

KEY :

SITE BOUNDARY

NORTH

LOCATION PLAN

	Rev.	Original A4 Drawing	CL	02.05.19	DL	02.05.19	DL	02.05.19
© Asher Associates		Amendment	Drawn	Date	Checked	Date	Apprd	Date

Client

DUMFRIES & GALLOWAY HOUSING PARTNERSHIP

Project Title

HOUSING DEVELOPMENT,
PHASE 2 ST MEDANS
MONREITH.

asher ASSOCIATES
CIVIL ENGINEERS
STRUCTURAL ENGINEERS
PROJECT MANAGERS

32 George Street, Dumfries DG1 1EH
Tel 01387 250644 www.asherassociates.co.uk

Scales	1:10,000
Job No.	AA6321
Drg. No.	AA6321/EW/100
Rev.	

Notes

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House Types:

100% affordable development

A	2B/4P	General Needs House	2 No.
B	3B/5P	General Needs House	2 No.
C	2B/4P	Amenity Bungalow	1 No.
C1	2B/4P	Amenity Bungalow	1 No.
Total No. of Units			6 No.

Do not scale dimensions from this drawing - if in doubt ask.
All dimensions, including figured dimensions, to be checked on site prior to commencing any works.

Boundary Treatment:

- 1.8m high timber close boarded fencing and gate.
- Facing brick retaining walling. 1.1m high black bow-topped metal railings where level difference is greater than 0.6m.
- 0.9m high timber post and wire fencing.
- Refuse / Recycling bin storage area.

Revisions		Date	Initials
A	Site layout updated.	02-04-19	DGB
B	Site layout updated based on St. Engineers drawings. Road frontage elevation added.	13-05-19	DGB

Project

Proposed Residential Development, St Mednans, Monreith for DGHP

Drawing Title

Site Plan as Proposed

ROBERT POTTER & PARTNERS
CHARTERED ARCHITECTS & PROJECT MANAGERS

7 MILLER ROAD, AYR	KA7 2AX	01292 - 261228
49 NEWALL TERRACE, DUMFRIES	DG1 1LN	01387 - 255509
169 ELDERSLIE STREET, GLASGOW	G3 7JR	0141 - 332 9111
2 KINGDOM STREET, LONDON	W2 6BD	0203 - 4795931

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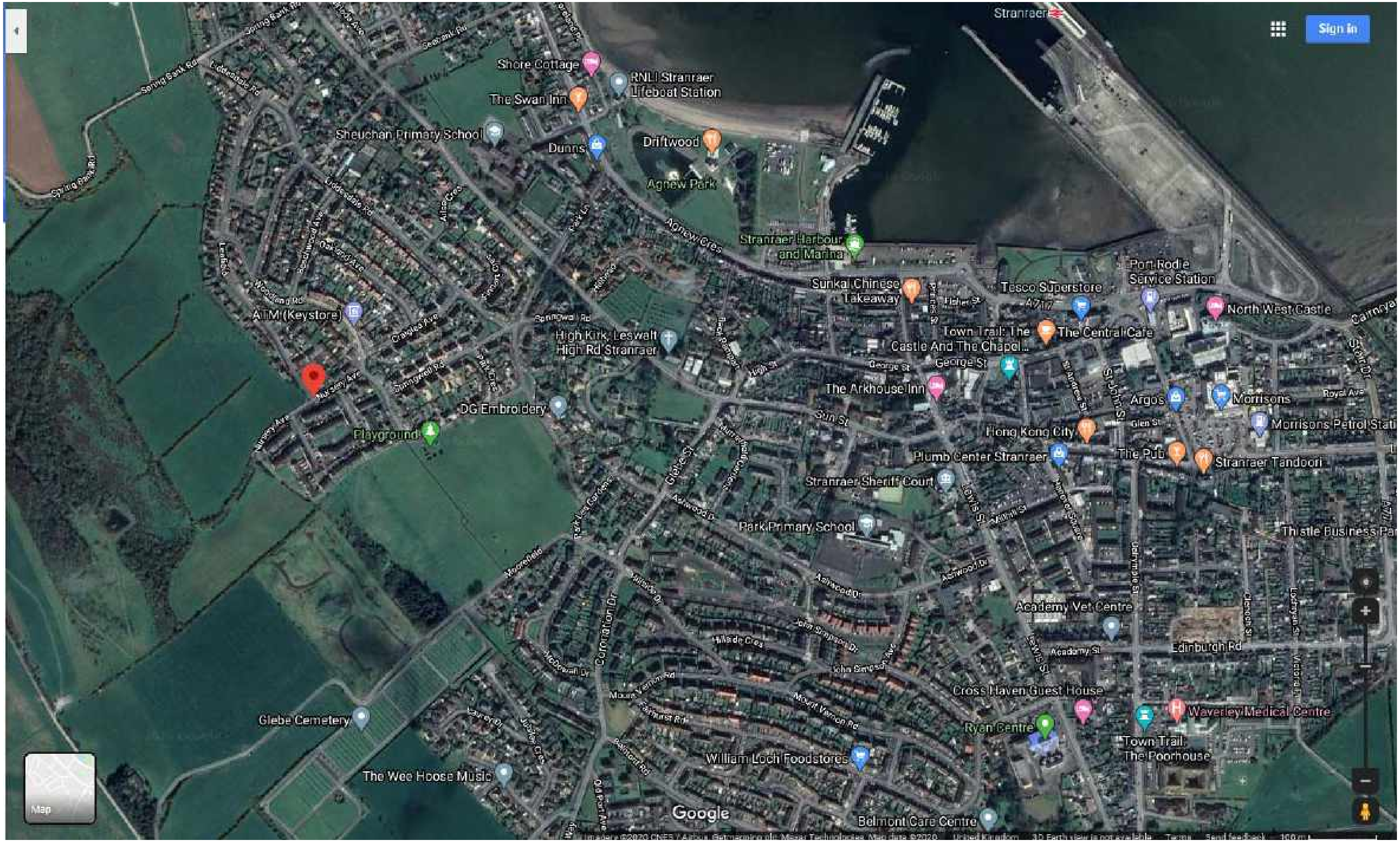
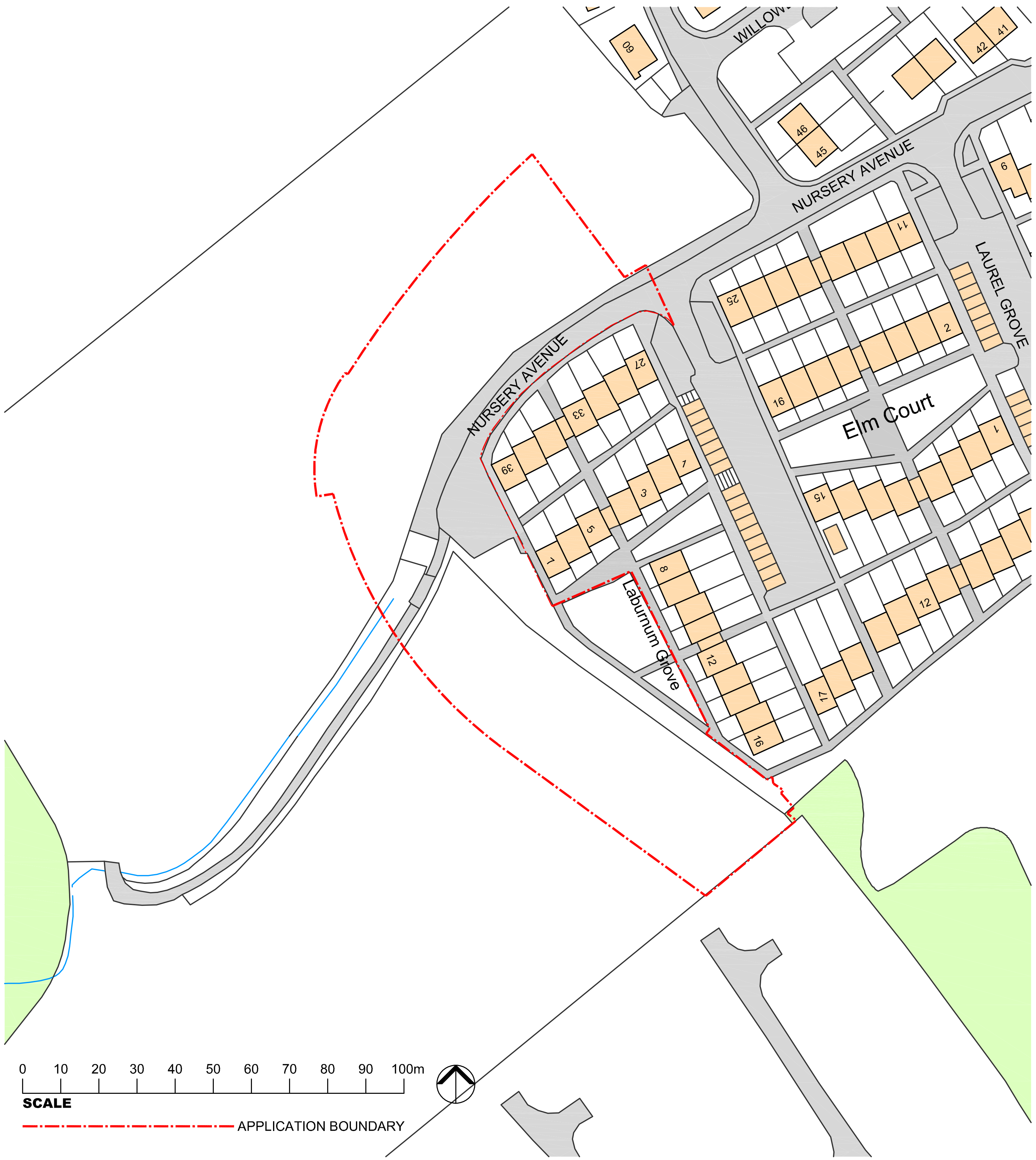
Date	March 2019	
Drawn By	DGB	
Checked By		Revision B


Stranraer
Sign in
Shore Cottage
RNLI Stranraer Lifeboat Station
The Swan Inn
Sheuchan Primary School
Dunns
Driftwood
Agnew Park
Agnew Cres
Stranraer Harbour and Marina
Sunkai Chinese Takeaway
Tesco Superstore
Port Rodie Service Station
North West Castle
ATM (Keystore)
High Kirk, Leswalt High Rd Stranraer
Town Trail: The Castle And The Chapel...
The Central Cafe
George St
The Arkhouse Inn
Argos
Morrisons
Morrisons Petrol Stati
DG Embroidery
Playground
Hong Kong City
Plumb Center Stranraer
The Pub
Stranraer Tandoori
Stranraer Sheriff Court
Park Primary School
Thistle Business Par
Academy Vet Centre
Edinburgh Rd
Cross Haven Guest House
Waverley Medical Centre
Ryan Centre
Town Trail: The Poorhouse
Glebe Cemetery
William Loch Foodstores
The Wee Hoose Music
Belmont Care Centre
Google
Map



File ref:

ISSUE	DATE	CHECKED
FIRST ISSUE	20.12.19	JG

DUMFRIES & GALLOWAY
HOUSING PARTNERSHIP

NURSERY AVENUE
STRANRAER

SITE LOCATION PLAN

1:500 @ A3

1838-A(00)001 REV -

mail@smith-scott-mullan.co.uk
0131 555 1414
378 Leith Walk
Edinburgh EH7 4PF

SMITH SCOTT MULLAN ASSOCIATES

LIST OF ADDRESSES WITHIN DUMFRIES & GALLOWAY HOUSING PARTNERSHIP OWNERSHIP

Property	Postcode
39 NURSERY AVENUE, STRANRAER	DG9 0BT
33 NURSERY AVENUE, STRANRAER	DG9 0BT
29 NURSERY AVENUE, STRANRAER	DG9 0BT
25 NURSERY AVENUE, STRANRAER	DG9 0BS
17 NURSERY AVENUE, STRANRAER	DG9 0BS
3 LABURNUM GROVE, STRANRAER	DG9 0BU
13 LABURNUM GROVE, STRANRAER	DG9 0BU
10 LABURNUM GROVE, STRANRAER	DG9 0BU
1 LABURNUM GROVE, STRANRAER	DG9 0BU
9 BEECH WALK, STRANRAER	DG9 0BX
6 BEECH WALK, STRANRAER	DG9 0BX
14 BEECH WALK, STRANRAER	DG9 0BX
13 BEECH WALK, STRANRAER	DG9 0BX
12 BEECH WALK, STRANRAER	DG9 0BX

Do not scale for construction
File ref: 1838-SK-01 (Site Plan Sketch Layout).dwg

ISSUE	DATE	CHECKED
FIRST ISSUE	20.12.19	JG

KEY:

- SITE BOUNDARY
- LAND OWNERSHIP BOUNDARY - APPLICANT (EXCLUDES AREAS SHOWN HATCHED)
- LAND OWNERSHIP BOUNDARY - DUMFRIES & GALLOWAY COUNCIL
- RETAINING WALL
- TYPE A - 1B 2P
- TYPE B - 2B 4P
- TYPE C - 3B 5P
- TYPE D - 4B 6P
- TYPE E - 7B 11P

PARKING:
NURSERY AVENUE EXISTING ON STREET PARKING:
- APPROXIMATELY 18no. PARKING SPACES

PROPOSED ON STREET PARKING:
20no. PARKING SPACES

PARKING ALLOWANCE PER HOUSE TYPE (IN CURTILAGE):
HOUSE TYPE A - 1 no. SPACES

HOUSE TYPE B - 2 no. SPACES

HOUSE TYPE C - 3 no. SPACES (ONLY 2 SPACES REQUIRED TO MEET NATIONAL ROADS DEVELOPMENT GUIDE).

HOUSE TYPE D - 3 no. SPACES

HOUSE TYPE E - 4 no. SPACES

DUMFRIES & GALLOWAY HOUSING PARTNERSHIP

NURSERY AVENUE
STRANRAER

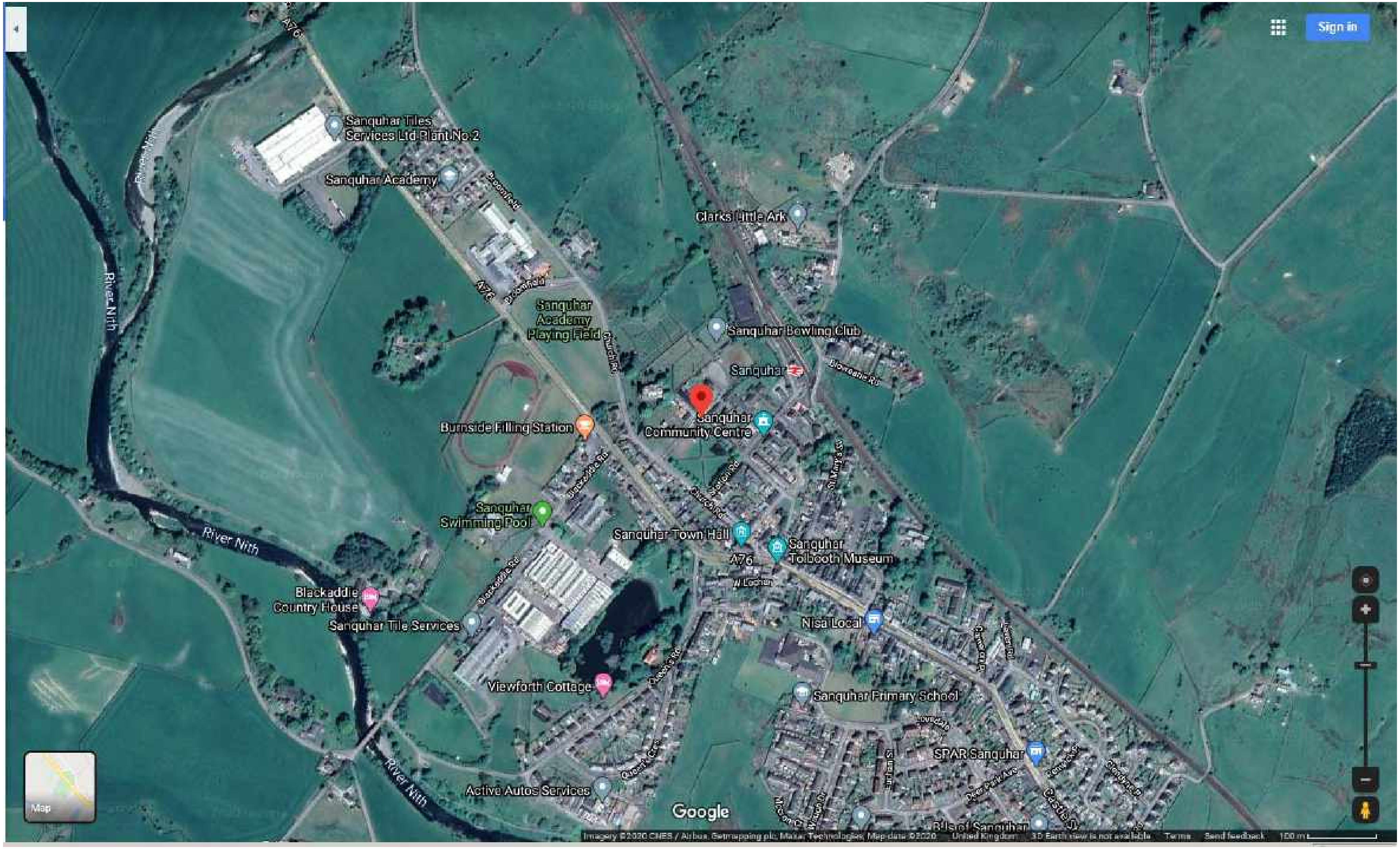
PROPOSED SITE PLAN

1:500 @ A1

1838-A(00)050 REV -

0 5 10 15 20m
SCALE

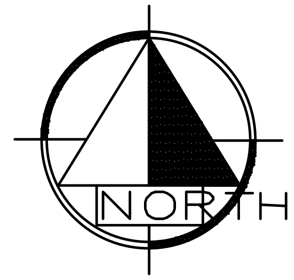
mail@smith-scott-mullan.co.uk
0131 555 1414
378 Leith Walk
Edinburgh EH7 4PF
SMITH SCOTT MULLAN ASSOCIATES

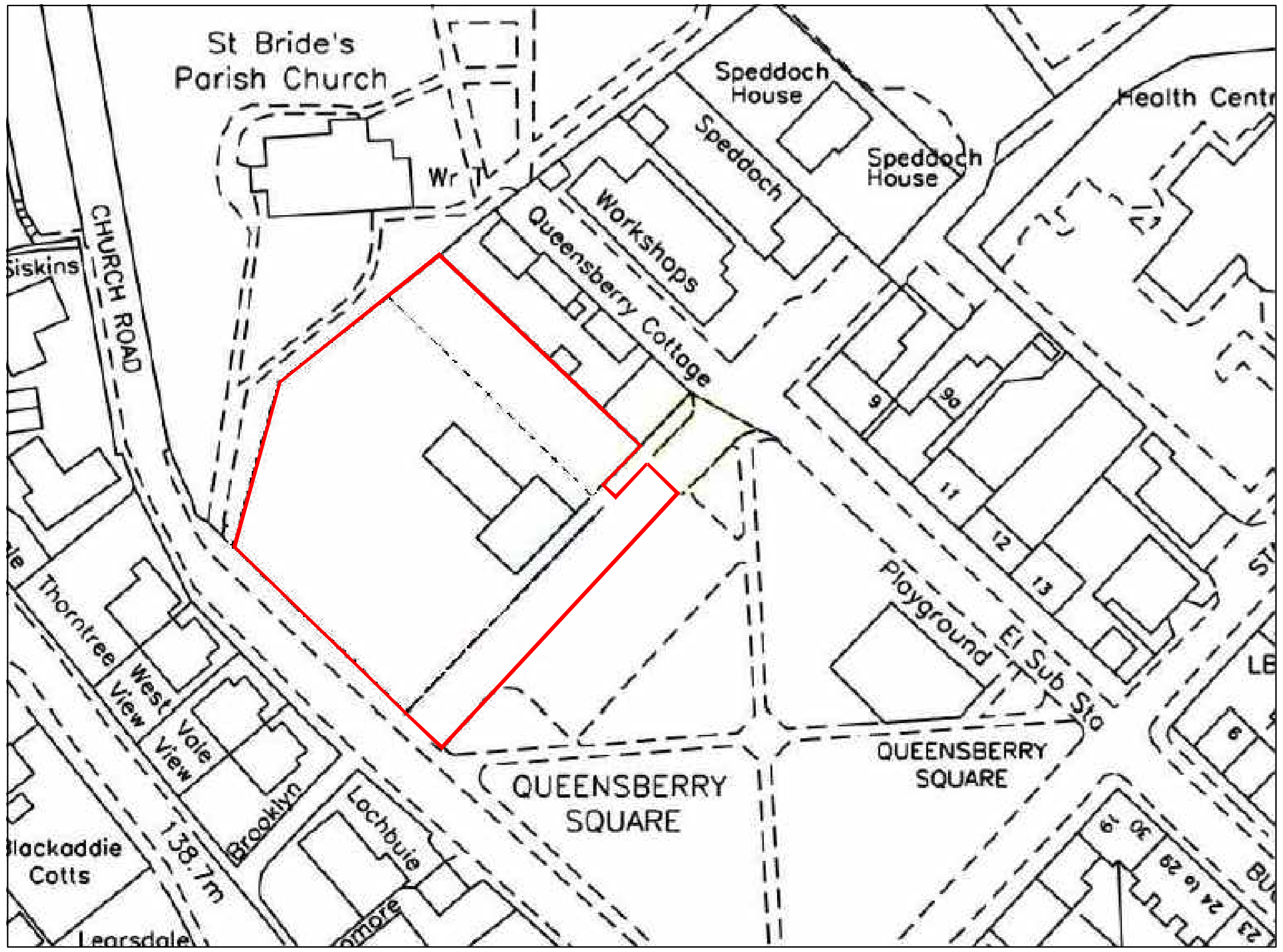


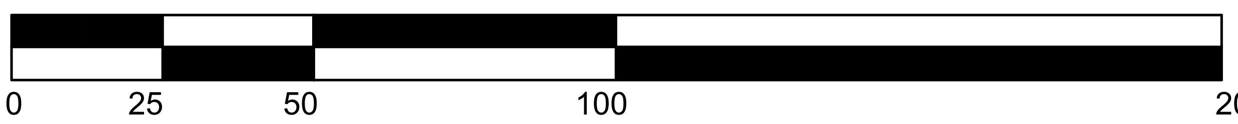
Sign in
A76
Sanquhar Tiles Services Ltd Plant No.2
Sanquhar Academy
Broomfield
River Nith
Clarks Little Ark
Sanquhar Academy Playing Field
Sanquhar Bowling Club
Church Rd
Sanquhar
Sanquhar Community Centre
Burnside Filling Station
Sanquhar Swimming Pool
River Nith
Sanquhar Town Hall
Sanquhar Tolbooth Museum
A76
Blackaddie Country House
Sanquhar Tile Services
Blackaddie Rd
Nisa Local
Viewforth Cottage
Queen's Rd
Sanquhar Primary School
SPAR Sanquhar
Active Autos Services
River Nith
Google
Map

REVISIONS:

Revision	--	00.00.00
DESCRIPTION		







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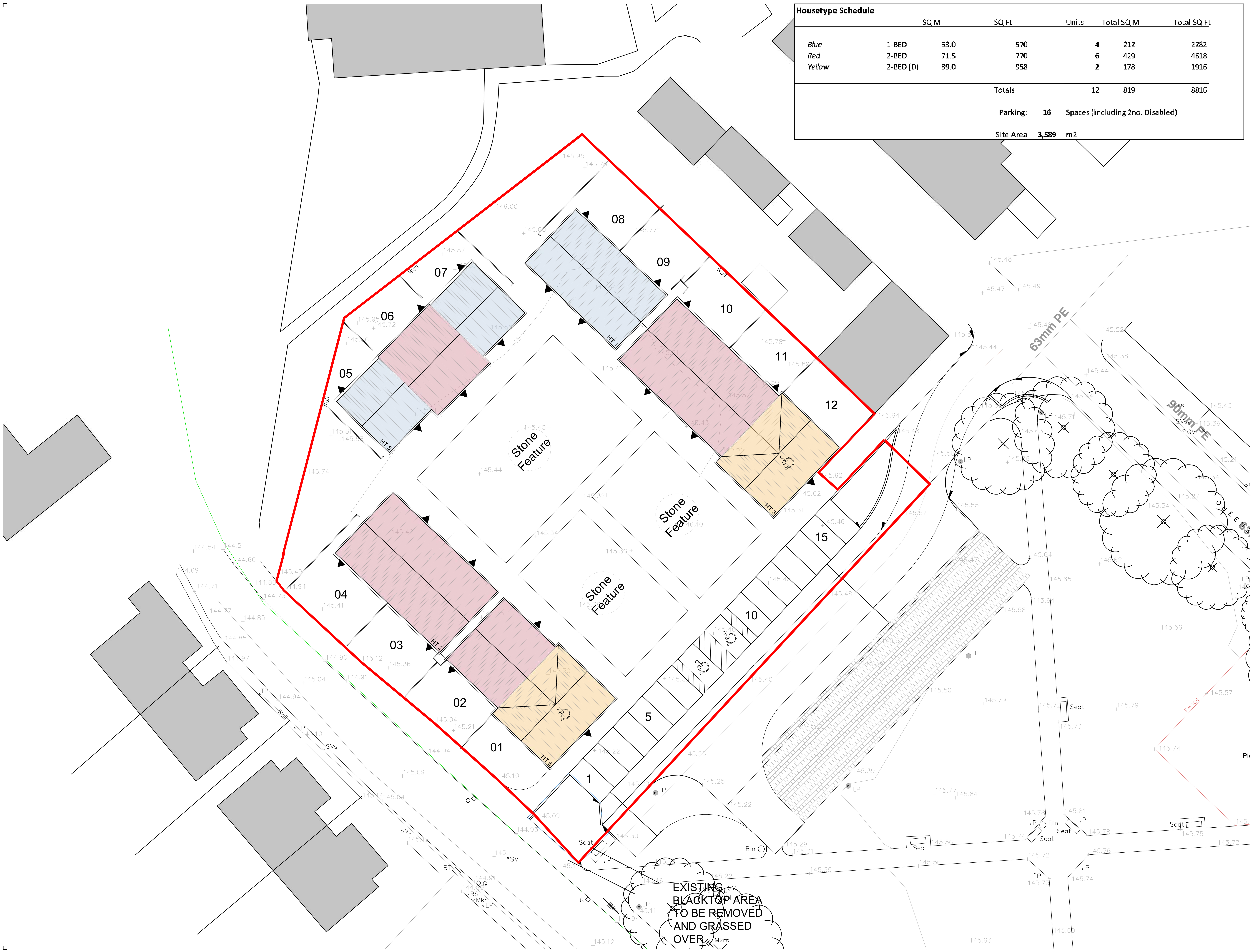
project title:
Proposed Housing Development
Old Primary School
Queensberry Square
Sanquhar

drawing title:
Location Plan

issue stage:
PLANNING ISSUE

date:	drawn:	scale @ A3:
SEP 19	CS	1:1250

drawing number:	revision:
1835-PL100	-



Housetype Schedule

		SQ M	SQ Ft	Units	Total SQ M	Total SQ Ft
Blue	1-BED	53.0	570	4	212	2282
Red	2-BED	71.5	770	6	429	4618
Yellow	2-BED (D)	89.0	958	2	178	1916
			Totals	12	819	8816

Parking: **16** Spaces (including 2no. Disabled)

Site Area **3,589** m2

REVISIONS:

MANNINGELLIOTT PARTNERSHIP

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project title:
Proposed Housing Development
Old Primary School
Queensbury Square
Sanquhar

drawing title:
Site Layout as Proposed
12 Units

issue stage:
FOR COMMENT

date:	drawn:	scale @ A1:
MAY 19	CS	1:200

drawing number:	revision:
1835-F204	-

Report

To: Wheatley Housing Group Board

By: Olga Clayton, Group Director of Housing and Care

Approved by: Martin Armstrong, Group Chief Executive

Subject: Group Delivery Plan 2019-20: Quarter 3

Date of Meeting:- 19 February 2020

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1 Purpose

1.1 This report outlines progress on the Delivery Plan Measures and Projects for Quarter 3.

2 Authorising context

2.1 Under the terms of the Group Authorising Framework, the Group Board is responsible for setting the overall Group Performance Framework and approving the delivery plan for each year. Under the Group Authorise/Manage/Monitor Matrix, the Group Board has an ongoing role monitoring performance of subsidiaries across the Group against the key indicators agreed under the performance framework.

2.2 The Framework is a key mechanism for ensuring sound governance and provides:

1) The basis for a continued drive to performance excellence;
2) A rounded view of strategic, operational and business plan information based on core measures but recognising the diversity of each Subsidiary; and
3) Strengthened Community Governance through enhanced tenant and customer scrutiny.

3 Risk appetite and assessment

3.1 Our agreed Group risk appetite in relation to board governance is “cautious”. This level of risk tolerance is defined as “Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential reward”.

4 Background

4.1 The report outlines performance against the current Group Delivery Plan as at Quarter 3, with actions and updates where appropriate. Most of the key indicators which will be reported to the Scottish Housing Regulator as part of the Annual Return on the Charter are included within this report.

5 Discussion - Quarter 3 performance

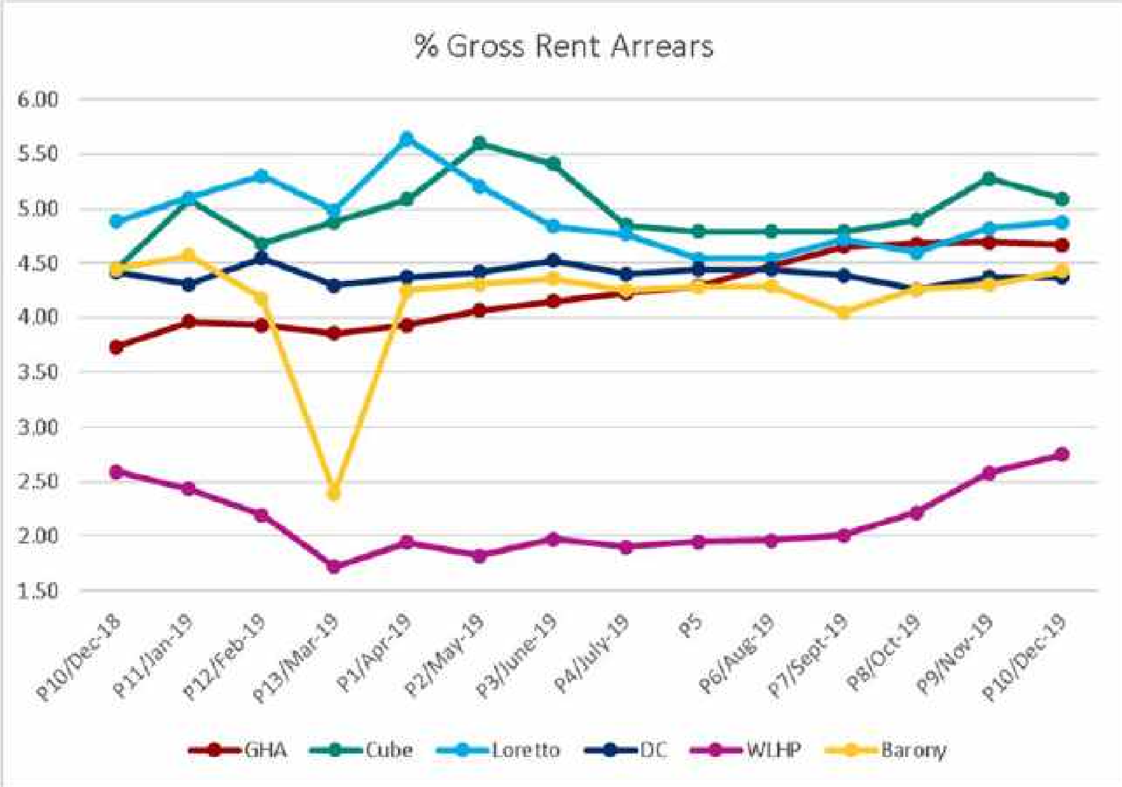
Group and Support Services

5.1 The following table provides collated results for four key indicators across the Wheatley Group RSL subsidiaries. Average emergency repair timescales continue better than target. The Christmas shut down at CBG and DCPS has slowed void repairs in this quarter with performance for days to let just above target but better than top quartile for both peer groups. Tenancy sustainment improved to over 91%.

5.2 Gross rent arrears at Group level remained at 4.66% despite the challenges of rent collection over the Christmas period and the impact of Universal Credit. The increase in arrears has slowed in Quarter 3 despite the numbers migrating to Universal Credit being higher than expected. Across the Group arrears are up 0.06%, compared to a rise of 0.26% from Quarter 1 to Quarter 2. This is despite the fact that these customers accumulate at least 5 weeks of arrears as they move onto the system.

5.3 Arrears for those who are not on Universal Credits have remained stable for most Subsidiaries through the year and some inroads are now being made in relation to arrears for Universal Credit customers as we work to help customers back to a balanced debit position. This is an area of continued development as we expect continued migration of customers onto the new system. Further detail is included in the Universal Credit section of this report.

Charter Indicator	Group Performance	Group Target
Arrears (%)	4.66%	4.06%
Tenancy Sustainment (%)	91.18%	93%
Average Emergency Repair Times (hours)	2.65	3
Average Days to Let (days)	14.51	14



5.4 Group performance in relation to <u>tenancy sustainment</u> remains relatively static at 91%. Dunedin Canmore and WLHP continue better than target. GHA performance surpasses peer group top quartile (89.67%) at 90.81%. Cube has seen steady improvements over the past two years, with April 2018 sustainment levels at 86% improving to 89%. The main impact in Cube is tenants transferring from studio flats in Wyndford to other RSL properties. Loretto's performance is also at 89%. Small numbers of new tenancies mean that only a further 5 tenancies would need to be sustained to meet target. Barony is similarly affected by small numbers with 28 of 31 tenancies sustained.

5.5 The graph below shows further detail of in month performance for GHA, Cube and Loretto. The Scottish Housing Regulator ("SHR") measure of tenancy sustainment looks at how many new tenants sustain their home for at least 365 days after the start of the tenancy. The SHR definition includes deaths and being taken into custody as "not sustained". As part of the new 2020-2025 framework, we are developing a new indicator of tenancy failure which measures the reasons which we can potentially influence (eg transfers, absconds). This will better inform our performance and strategic actions.

5.6 63% of calls have been answered in under 30 seconds for the year to date compared to the 75% target and last year's result of 69%. Performance has been affected by the fundamental changes to the service centre which took place in August. These included a change to the existing interactive voice response set up and piloted introduction of specialised teams in preparation for the launch of the specialist repairs call service. As a result of these changes, an increased summer leave allowance and a demand increase of more than 7,000 calls performance declined in Quarter 2 and the beginning of Quarter 3. Performance began to improve again in December with the percentage of calls answered in 30 seconds up by 16%. This has been achieved by creating further efficiencies within the team, alongside increased staffing resource. Further new staff are expected to join the team in Quarter 4 and this should result in continued improvements in performance.

5.7 Group payments made within 30 days or fewer have improved by just over 1% in the quarter to 92.4% against the 96% target. This was due to a backlog in Lowther invoices which has now been cleared. Performance has improved in each month since July with in month performance now over target. Continued improvement is expected over the final quarter. Although the final result may not reach target, in month performance will be above target, ensuring that this should be achieved in 2020/21.

5.8 The number of jobs, training places or apprenticeships created continues to exceed target with 603 positions created against a Quarter 3 target of 555.

5.9 Sickness for the Group is slightly over target at 3.56%, and virtually on target for the Group excluding Care (3.06% against the 3% target). The top two reasons for absence across the Group are minor illness and stress/anxiety Loretto Housing and Loretto Care are both over target due mainly to a number of long term absences, support is provided to staff to assist their return to work as appropriate. Loretto Housing is also affected by higher levels of sickness in the Tenancy Support Service where the staff profile is similar to our care services. This service will be transferred to Care as part of the One Care Vehicle in next financial year. Sickness for Loretto Housing without the Tenancy Support service is better than target.

5.10 The number of accidental dwelling fires (ADFs) in Quarter 3 for the West is better than the profiled quarterly target – 50 against 54. This has improved the year to date position from 12 to 8 off target – 170 ADFs in total compared to 162 profile. The aim is to reduce the number of ADFs by 10% (West) from 240 last year to 216 this year. There has been an increase in incidents due to the programme of improved smoke and heat detection being undertaken by the Group. 95% of all accidental dwelling fires are "near miss" cooking related incidents which are extinguished prior to the arrival of the Scottish Fire and Rescue Service. A number of initiatives taking place this year, such as replacing open chip fryers with air fryers, are aimed to support this reduction. Data from the East has been available to the Group since Quarter 2, year-to-date 4 ADFs have been reported for the East.

5.11 The second fire safety objective this year is to increase the number of Home Fire Safety Visits (HFSVs) across the Group by 10% compared to 2018/19. The number of visits carried out in 2018/19 was 2,812, an increase of 10% would take this to 3,093 by end of March 2020. The number of visits carried out this year is 2,258 against 2,319, a shortfall of only 61. The Group Fire Safety Team will be carrying out days of action along with colleagues from the Scottish Fire and Rescue Service (SFRS) to promote home visits particularly in the most affected communities.

5.12 The table below shows the % of lets to homeless households by RSL. These results are now included within the main measures dashboard Appendix. The level of homes we can let to homeless households is not always controlled by the Wheatley Group. In Loretto, Barony and WLHP in particular, many lets are provided through nomination agreements with the relevant local authority. In these cases the local authority determines how many of the nominations go to the homeless households. The number of lets do not always reflect the number of offers that we have made to homeless households. For example:

Subsidiary	% of all lets to homeless households	Target
GHA	28.77%	33%
Cube	22.28%	33%
Loretto	13.07%	25%
Dunedin Canmore	56.42%	N/A
WLHP	33.78%	N/A
Barony	22.22%	N/A

5.13 New measures which show the percentage of referrals which receive an offer, and which receive a let are still being piloted in management teams. These will come to the Board in the year end report.

Universal Credit

5.14 The rate of customers moving on to UC has been faster than the Business Plan had assumed for 2019/20. The assumption was that 6,340 customers would be on UC by December 2019, in reality we now have a cumulative total of 8,218 UC tagged customers.

5.15 On average, there is an increase of 427 new UC customers each month this year, with housing officers now supporting around 27 UC customers per patch. 71% of customers are in arrears. The percentage of customers in arrears has remained steady throughout the year despite an increase in the number of customers on UC of 7% Group wide. Positively, 29% of customers on UC have a clear account or are in credit and this has also remained steady across the year.

5.16 For the purposes of Universal Credit monitoring the focus is on sitting tenant (ST) arrears.

5.17 ST arrears for the Group have increased by 0.50% from the beginning of the financial year to December 2019, from 2.74% to 3.24% This can be segmented as follows.

5.18 **Arrears attributable to UC** which have increased by 0.55%. The cash value of this increase is in line with expectations at £1.48 million. In terms of our benchmarking peer group, the latest available data (to September 2019) shows that we are performing well with average UC arrears at £305 against £388 for Gentoo. Total arrears for UC customers (to September 2019) also benchmark well against our peers, with National Housing Federation average at £744 and The Guinness Partnership at £777 against a Wheatley Group average of £704.

5.19 **Core arrears** have improved by 0.05%, from 2.49% to 2.45% from the start of this financial year. Subsidiaries are focussed on maintaining core arrears at or below the level of the previous year to mitigate the impact of UC. Barony, Cube, Loretto and DC have all achieved reductions in the year totalling just over £250,000. GHA's core arrears have moved from 2.37% to 2.47% over this period, having seen the highest percentage increase in the number of UC customers within Group this year.

5.20 **CHART 1:** Wheatley Group ST arrears as a % of operational gross debit split to core arrears and arrears attributable to UC.

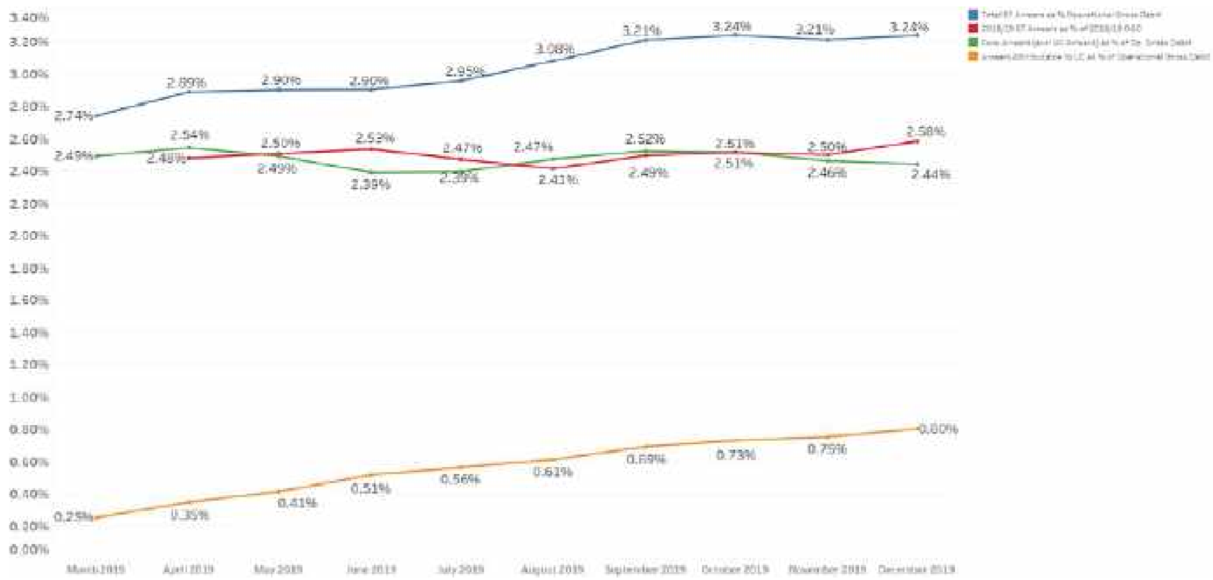


CHART 2: Wheatley Group number of UC customers

5.21 Links with DWP assists identifying customers moving onto Universal Credit and offer support as required. The key actions for staff to support customers on UC are to establish early contact, secure a direct debit or other formal payment arrangements, make appropriate referrals to Wheatley 360 wrap around services such as Welfare Benefits advice, Fuel Advice, EatWell and Tenancy Support Plus and ensure customers understand the importance of keeping their Universal Credit information up to date.

5.22 The use of Expected Payment Plans (EPPs) for UC customers has increased by 18% since September. The number of UC customers on a managed payment from DWP has also increased by 3%. 95% of EPPs are maintained and this has remained steady since September 2019.

<u>GHA</u>

5.23 GHA is meeting target for 6 of the key indicators at the end of Quarter 3. Eight are still to achieve target of which 3 are within 1% of target and days to let is just over 1 day above target. 8 of the 9 indicators in the dashboard which are included in the ARC are meeting top quartile. Indicators where performance is better than target include emergency repairs, repairs appointments, resolution of anti-social behaviour cases and satisfaction with the standard of their home when moving in.

5.24 A number of indicators are now very close to target and are should reach target in the next quarter. These include complaints timescales (where a new process has been rolled out across GHA), sickness and repairs satisfaction.

5.25 Average days to let performance has deteriorated in the quarter from 14 days to just over 15 days. Performance remains better than the top quartile benchmark. A review of performance and processes has revealed that the main reasons are repairs work taking longer than anticipated and offers being refused. A number of actions have been taken to improve performance including undertaking kitchen and bathroom replacements once the tenant has moved in, increasing the focus on transferring temporary accommodation into a permanent let for the household, and prioritising properties for replacement temporary accommodation. GHA is working closely with the GCC case work teams to ensure a minimum of 3 notes of interest per advert to minimise the impact of refusals. This is expected to improve performance significantly in Quarter 4.

5.26 While tenancy sustainment is already excellent and meets the top quartile benchmark for GHA, it remains static at around 91%. This is an issue across the West subsidiaries. As outlined earlier in the report, a new performance indicator will be developed as part of the 2020-2025 performance framework, to allow actual tenancy failure to be tracked more effectively.

5.27 Gross rent arrears have increased only slightly in the quarter from 4.65% to 4.67%. Rent arrears traditionally increase at the beginning of quarter 4 with a "Christmas spike". The effect of our rent campaign has reduced this spike and for the second year in succession there has been no increase in the period before Christmas. We still see a rise in the period immediately after Christmas. In past years this has then be reduced in the remainder of Quarter 4, however, the impact of Universal Credit means that a reduction is less likely this year.

5.28 345 new builds have been completed for GHA in the first three quarters of the year. The target for the full year is 413 units and this is anticipated to be met by year end.

Cube

5.29 Cube continues to meet target for nine of the indicators on the dashboard including complaints timescales, repairs indicators, anti-social behaviour response timescales and sickness levels. Average time to re-let properties continues to improve and is down from 20 days last year to 14.8 days. Tenancy sustainment remains off target as outlined in paragraph 5.2.

5.30 Gross rent arrears at 5.21%% against the 4.6% target, are up from 4.9% in Quarter 2. Cube's rent arrears increase through the year from September. This is due to Housing Benefit being paid on a four weekly cycle with two payments in August/September for Glasgow. The rise in Quarter 3 is very similar to that for last year (up 0.31% compared to 0.27% last year).

5.31 The trend in past years has been for a further increase of approximately 0.4% in the last Quarter of the year.

5.32 97 social housing units have been completed in the first three quarters of the year. These include sites at Bonhill and Dumbain, Balloch. This level of completion exceeds the annual business plan target of 63 units.

Loretto Housing

5.33 Loretto is meeting target for 6 of the indicators in the dashboard. These include repairs indicators, anti-social behaviour resolution and re-let times.

5.34 Tenant satisfaction with repairs and maintenance has dropped below target. This indicator can be affected by the relatively low number of returns in Loretto. 175 of 193 customers who responded were satisfied with their repair. Loretto is working with the Hub to increase response rates with the aim of reaching target by the end of quarter 4.

5.35 The % of complaints responded to in full within SPSO timescales has risen steadily over the Quarter and is now meeting target.

5.36 The average time to relet properties has also slipped off target, with performance worsening from 12 days to 14.5 days. Performance is still better than top quartile. This has been caused by specific issues in one patch, without this performance would be on track.

5.37 Tenancy sustainment is at 89% against the 92.5% target (which also represents top quartile). This is affected by the low numbers of new tenants each year in Loretto – this performance currently represents 113 out of 127 tenancies being sustained for a year after they start.

5.38 Gross rent arrears have risen to 4.88% from 4.72% in Quarter 2, against the 4.6% target. This result is still better than the year end result of 4.98% last year and is stable compared to the end of Quarter 3 last year. Loretto have reduced core arrears but the increase in UC customers from 9% to 14% has impacted overall performance. Rent arrears reduced very slightly in quarter 4 last year. However, the impact of Universal Credit means that the target will be challenging to achieve.

5.39 Sickness is above target at 6%, impacted by long term absences as referred to in paragraph 5.7. As outlined earlier in the report, this performance is significantly affected by the higher sickness levels in the Tenancy Support Service. Excluding this service, Loretto's sickness level is approximately 2.4%.

5.40 56 new homes have now been completed against the annual target of 56.

Dunedin Canmore Housing

5.41 Dunedin Canmore is meeting target for 8 of the indicators on the dashboard. Performance is above target for indicators including repairs, anti-social behaviour resolution, tenancy sustainment and days to let.

5.42 Gross rent arrears have reduced slightly to 4.37% against the 4.3% target compared to 4.39% in Quarter 2. In 2018/19 rent arrears reduced in Quarter 4 and if this is repeated Dunedin Canmore would meet target, however the impact of Universal Credit may mitigate against this.

5.43 77 new build homes have been completed in the first three quarters of the year. A total of 245 units are expected to complete in the full year. Units have been completed in developments at Greendykes, Ravelrig Road, Balerno, North Berwick, Aberlady and Lang Loan.

WLHP

5.44 West Lothian Housing Partnership is meeting target for all but two of the targeted indicators on the dashboard.

5.45 Gross rent arrears are at 2.75% against the 2.3% target. Performance remains better than top quartile benchmark of 3.48%. Arrears reduced by more than 0.5% in Quarter 4 last year although improvement may be reduced this year because of the impact of Universal Credit. Rent arrears were adversely affected in this period by some housing benefit payment issues and a pattern of direct debit payments which meant some were received after period end. Actions being undertaken to reduce arrears include switching housing officer for households with persistent arrears so that tenants hear a different voice in the conversation and increasing resources for outbound calls when a first payment is missed. Where customers will not pay robust action continues to be taken with 8 high arrears cases currently going through court. Arrears are still projected to be better than target at year end.

5.46 53 social rent properties have been completed at Dixon Terrace, Whitburn ahead of target.

5.47 No mid-market properties have been completed this year. As reported to the Board previously, this relates to the Jarvey Street site where the previous contract with Albany Street Developments Ltd has been terminated. A request to change tenure from MMR to social rent has been submitted to the Scottish Government.

Barony

5.48 Barony is now meeting target for 7 of the indicators on the dashboard. Tenant satisfaction with repairs and maintenance has slipped slightly below the 93% target at 92.45%. 98 out of 106 customers who responded were satisfied with their repair. Work is ongoing to increase returns to ensure improved performance.

5.49 Tenancy sustainment has dropped to 90% against the 93% target. This is affected by the small numbers in Barony with 28 out of 31 new tenancies being sustained for at least a year (compared with 27 out of 29 at the end of quarter 2).

5.50 Barony's gross rent arrears are currently at 4.4% against the 3% target. This performance is at the same level as this time last year. Barony has a manual adjustment at year end to account for Housing Benefit payments which come in after month end. This normally reduces arrears by almost 2%. On this basis, performance is expected to meet target at year end.

Loretto Care

5.51 Loretto Care is meeting target for the number of unplanned move ons from service and staff registered with an appropriate body. In addition, it is outperforming target for surplus with the actual surplus at £275,000 against a £113,000 target. The surplus in 2015/16 was £146,000. Reserves are at 1.8 time monthly income against a target of 1 month's income.

5.52 14 (78%) of Loretto's services are now making a surplus, with two making a surplus of over £100,000. This is up from 9 services in 2015/16. Of the other four services, the largest deficit is £40,000 with one having a deficit of only £3,000.

5.53 Two of these deficits are in our Falkirk services where new rates have been agreed with the local authority and a break even position is expected for next year. A staffing restructure at the third service is now reducing the deficit.

5.54 Complaints responded to within timescale has slipped off target this quarter. This represents 9 out of 10 complaints responded to in timescale. One complaint missed timescale in October.

5.55 Complaints to Care Inspectorate upheld remains off target. As previously reported this will remain off target due to the impact of the complaint upheld in April of this year.

5.56 85% of services are graded very good (5) or better by the Care Inspectorate against the target of 90%. 11 out of 13 live inspections have received grades of 5 or more while 26 out of 31 individual themes received grades of 5. 2 services have been inspected since the Quarter 1 report. No new Care Inspections were finalised in the year. The 2 Care Inspection requirements received in April continue to impact on this measure.

5.57 Sickness has remained static from last quarter at 5.75% against the 5% target. This is linked primarily to long term sicknesses.

5.58 Fourteen of 18 Loretto Care services are now breaking even, up from 8 out of 15 at the beginning of 2016/17. This has been achieved through extensive work to restructure services and negotiation with funding local authorities.

Barony – Care services

5.59 Barony Care is on track for four indicators – unplanned move on, complaints responded to within timescales, staff registration and sickness. In addition, there have been no complaints to the Care Inspectorate and as a result none upheld.

5.60 62.5% of care services were graded very good (5) or better against the 90% target and performance of 86% last year. This equates to 5 out of 8 services and 13 out of 20 themes receiving grades of 5 or more. One Care Inspectorate grading was finalised in the Quarter. This was for the Falkirk SDS service. The service received a grade of 5 (very good) for quality of care and support and 4 (good) for quality of management and leadership. These gradings have been affected by recruitment issues. The move to one care company has allowed improvements to be made to terms and conditions which should help with recruitment.

5.61 8 out of the 10 Barony Care services are currently breaking even, up from 7 at the beginning of the year.

Commercial services

5.62 YourPlace profit is currently at £1.2m, almost £0.3m ahead of the target for this point in the year. Common charge arrears and complaints responded to in timescale are also on target.

5.63 Continued focus on arrears measures has brought common charge arrears on target. Repairs arrears are now £150k lower than at year end last year, however the year end target of £800k is now not likely to be met due to significantly higher billing in the year. Capital investment arrears are down by almost £200,000 compared to last year at £2.5million. Performance is on track to meet the year end target of £2.45million.

5.64 Lowther remain slightly behind on the rental income target due to delays in some new build developments such as Bell Street. As the resulting costs in relation to leasing charges and advertising have not been incurred, profit and therefore Gift Aid are on track and expected to meet year end target.

5.65 Gross rent arrears have risen in the first half of this year due to the impact of the new Private Residential Tenancy and delays in securing payment orders and evictions. Additional litigation support has been put in place to ensure a more proactive approach to arrears if engagement is unsuccessful through earlier contact. Improvements are expected in quarter 4.

5.66 Average days to let are above target for both full market and mid market rent. As outlined in the November report, Vanguard, an external organisation specialising in systems thinking and streamlined processes, have been appointed to review the efficiency and effectiveness of letting processes with a view to significantly improving performance during Quarter 4 and into 2020/21.

5.67 Commercial properties income is at £1.4m against a year end target of just over £2m. It is anticipated that the year end position will be just £100,000 short of target. This is due to a higher than budgeted void rate and radio base masts leases generating less income than expected.

6 Strategic projects

6.1 Appendix 2 outlines progress on the strategic projects in the Delivery Plan at as at 28 November 2019.

6.2 Most projects are on track to complete on schedule.

6.3 The following 2 projects are overdue:

- **Work with Police Scotland to develop a Group wide anti-social behaviour and crime prevention and mitigation framework:** This project was due by end November. The draft framework is still in draft format and is being updated by MD Wheatley 360. A report will be presented to the Wheatley Board in April.
- **Develop a proposal to support choice, innovation and efficiency in the delivery of adaptations (b)** – After this project was developed for the 2019/20 Delivery Plan, the Scottish Government and Glasgow City Council both announced reviews in relation to their approach to adaptations. The outcome of these reviews will in turn affect our approach and it is proposed that this project is now moved into the 2020/21 Delivery Plan.

6.4 Three projects are showing slippage in progress. The **Development Framework** is linked to the enabling strategies for our new 2020-2025 Strategy. These are now due to be reported in Quarter 1 of next year and as a result the Development Framework project will move into next year. Similarly, the **Group workforce development plan** requires the finalisation of our Group People Strategy which is also due to Boards in Quarter 1 of 2020/21. On that basis, it is proposed that this project is now moved to the 2020/21 Delivery Plan. **Procure Care IT platform** milestones were developed based on the procurement of an external system. It has been agreed that this is not currently feasible and alternative work is underway to review an interim plan for approval. This work is still due to complete by 31 March 2020.

6.5 Two further projects are currently at 0% progress. **Complete implementation plan for migration of YourPlace's business to Lowther** has been delayed as a result of an overdue decision from the Financial Conduct Authority (FCA). All work that can be done within Wheatley prior to this decision has already been completed. **Customer experience - online self-service and channel shift strategy approved and launched (YP)** this project was looking at the development of paperless direct debit for YourPlace. This has not been completed and it is proposed that this is rolled into the project to scope the full online business approach for Lowther and YourPlace in 2020/21.

7 Reporting timescale and processes

7.1 Reporting to Boards takes place on a quarterly basis as shown in the table below. For Subsidiaries reporting monthly the quarters end in June, September, December and March. Subsidiaries with four weekly reporting are slightly more complex with the quarters ending at period 4,7,10 and 13. GHA reports on a four weekly cycle ending on 15 March 2020. WLHP and Barony report on a four weekly cycle ending on 22 March 2020.

7.2 This reporting structure was designed to ensure the Executive Team and Subsidiary Boards were able to consider performance and required improvement actions prior to reporting to the Wheatley Board. The table below outlines the process and shows the last date of periodic reporting for each quarter.

Reporting period	Data provided (latest period date)	ET meeting	Subsidiary Board meetings	WHG Board meeting
Quarter 1	End June/period 4 (12/07/20)	July	August	August
Quarter 2	End September/period 7 (04/10/2020)	October	November	December
Quarter 3	End December/Period 10 (27/12/20)	January	February	February (previously April)
Quarter 4	Financial year end	May	May (approval of ARC)	June

8 Key issues and conclusions

8.1 This report outlines positive progress in achieving the majority of performance targets and the delivery of projects. Key areas of focus in Quarter 4 will be in relation to rent arrears, days to let in GHA and Care Inspectorate gradings. Work continues to ensure projects are completed on time except where noted in the main report, including those currently showing slippage.

9 Value for money implications

9.1 The projects and measures in this report are form the Group's Delivery Plan for 2019-20. These items are intended to focus service improvement on the key priorities within the Strategy. This helps to ensure that financial and other resources are well aligned with our priorities.

10 Impact on financial projections

10.1 There are no direct financial implications arising from this report. Any financial requirements related to actions and projects within the report are subject to separate reporting and agreement.

11 Legal, regulatory and charitable implications

11.1 Registered Social Landlords are required to provide an Annual Return on the Charter to the Scottish Housing Regulator. The key indicators within this return are included in monthly performance reporting. RSL Subsidiary Boards approve the final return and this information is included in the year end performance report to the Wheatley Group Board. RSLs are also required to involve tenants in the scrutiny of performance (this is done through our Tenant Scrutiny Panel) and to report to tenants annually by October each year.

12 Partnership implications

12.1 Reports on the Delivery Plan can be used to identify areas where partnerships need to be strengthened or amended to help Wheatley achieve its strategic vision.

13 Implementation and deployment

13.1 This report provides updates on progress with the Group Delivery Plan. Any specific projects and actions are subject to separate approval.

14 Equalities impact

14.1 There is no direct equalities impact from this report.

15 Recommendations

15.1 The Wheatley Housing Group Board is asked to:

1) Agree that the projects in relation to adaptations (paragraph 6.3), Group workforce planning (paragraph 6.4) and customer experience (paragraph 6.5) should be moved to the 2020-21 Delivery Plan; and
2) Note the contents of the remainder of this report.

List of Appendices

Appendix 1: Measures dashboard
Appendix 2: Strategic projects dashboard

Appendix 1: Wheatley Housing Group Board - Delivery Plan 19/20 - Strategic Measures

A - A Our Group

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
Group - Gross Rent Arrears	3.89%	4.66%	4.06%	
Group - Tenancy Sustainment	90.45%	91.18%	93%	
Group - Average time to complete emergency repairs - make safe	2.52	2.65	3	
Group - Average days to let	16.89	14.51	14	
Group - % calls answered <30 seconds (Grade of Service)	69.06%	63.28%	75%	
Group - % avoidable contact	9.05%	6.97%	17%	
Group - % of payments made within the reporting period which were paid in 30 days or fewer (from the date the business receives a valid invoice)	95.13%	92.41%	96%	
Group - Total number of jobs, training places or apprenticeships created including Wheatley Pledge	788	603	555	
Group - Sickness Rate (excluding Care)	2.73%	3.06%	3%	
Group - Sickness Rate	3.25%	3.56%	3%	
Group - Care Sickness Rate	4.96%	5.29%	5.5%	

A - GHA

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
% All complaints responded to in full within SPSO timescales (Includes YP)	95.07%	95.62%	96%	
Average time taken to complete emergency repairs (hours) – make safe	2.79	2.72	3	
% repairs appointments kept	100%	100%	98.02%	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service (4 Weekly)	93.54%	93.36%	94.2%	
% anti-social behaviour cases resolved within locally agreed targets	93.8%	95.13%	94.03%	
% new tenancies sustained for more than a year - overall	90.87%	90.81%	93%	
% Tenants satisfied with the standard of their home when moving in	97.04%	96.37%	94%	
Gross rent arrears (all tenants) as a % of rent due	3.85%	4.67%	3.99%	
Average time to re-let properties	15.79	15.13	14	
% lets to homeless applicants		28.77%	33%	
New build completions - Reprovisioning	197	210	44	
New build completions - Social Housing		42	98	
New build completions - Mid-market	145	93	29	
% Sickness rate	2.85%	3.09%	3%	

B - Cube

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
% All complaints responded to in full within SPSO timescales (includes YP)	100%	100%	96%	
Average time taken to complete emergency repairs (hours) – make safe	2.46	2.6	3	
% repairs appointments kept	100%	100%	98.02%	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service (monthly)	94.46%	94.7%	93%	
% anti-social behaviour cases resolved within locally agreed targets	98.41%	98.86%	93.87%	
% new tenancies sustained for more than a year - overall	87.19%	89.83%	92.5%	
% Tenants satisfied with the standard of their home when moving in	98.48%	98.78%	94%	
Gross rent arrears (all tenants) as a % of rent due ((Excludes Homelink)	4.88%	5.21%	4.6%	
Average time to re-let properties	20.1	14.98	17	
% lets to homeless applicants		22.28%	33%	
New build completions - Social Housing	152	97	17	
% Sickness rate	2.71%	1.03%	3%	

C - Loretto Housing

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
% All complaints responded to in full within SPSO timescales (includes YP)	96.64%	97.27%	96%	
Average time taken to complete emergency repairs (hours) – make safe	2.97	3	3	
% repairs appointments kept	100%	100%	98%	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service (monthly)	91.37%	90.67%	93%	
% anti-social behaviour cases resolved within locally agreed targets	98.39%	98%	93.87%	
% new tenancies sustained for more than a year - overall	90.85%	88.98%	92.5%	
% Tenants satisfied with the standard of their home when moving in	98.36%	98.18%	94%	
Gross rent arrears (all tenants) as a % of rent due	4.98%	4.88%	4.6%	
Average time to re-let properties	12.55	14.56	14	
% lets to homeless applicants		13.07%		
% lets to other nominations – non homeless		35.23%		
New build completions - Social Housing	86	56	28	
Sickness Rate	5.15%	6.08%	3%	

D - Dunedin Canmore

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
% All complaints responded to in full within SPSO timescales (includes YP)	97.59%	96.88%	96%	
Average time taken to complete emergency repairs (hours) – make safe	2.62	1.95	3	
% repairs appointments kept	100%	100%	98%	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service (monthly)	92.96%	94.12%	93%	
% anti-social behaviour cases resolved within locally agreed targets	99.04%	98.5%	93.87%	
% new tenancies sustained for more than a year - overall	95.45%	94.93%	93%	
% Tenants satisfied with the standard of their home when moving in	95.74%	98.26%	94%	
Gross rent arrears (all tenants) as a % of rent due	4.3%	4.37%	4.3%	
Average time to re-let properties	10.15	9.62	12	
% lets to homeless applicants		56.42%		
New build completions - Social Housing	150	26	75	
New build completions - Mid-market	68	51	116	
Sickness Rate	2.82%	3.02%	3%	

E - WLHP

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
% All complaints responded to in full within SPSO timescales	100%	100%	96%	
Average time taken to complete emergency repairs (hours) – make safe	2.47	1.87	3	
% repairs appointments kept	100%	100%	98%	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service (4-weekly)	98.18%	95.05%	93%	
% anti-social behaviour cases resolved within locally agreed targets	100%	100%	93.87%	
% new tenancies sustained for more than a year - overall	94.74%	98%	93%	
% Tenants satisfied with the standard of their home when moving in	100%	94.87%	94%	
Gross rent arrears (all tenants) as a % of rent due	1.72%	2.75%	2.3%	
Average time to re-let properties	2.14	1.13	6.5	
% Lets to Nomination Homeless Applicants		33.78%		
% Lets to Other Nominations – non-homeless applicants		20.27%		
New build completions - Social Housing	55	53	0	
New build completions - Mid-market	0	0	42	
% Sickness rate	0.29%	0.09%	3%	

F - Barony - Housing

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
% All complaints responded to in full within SPSO timescales	95.24%	100%	96%	
Average time taken to complete emergency repairs (hours) – make safe	2.32	1.87	3	
% repairs appointments kept	100%	100%	98%	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service (4-weekly)	92.44%	92.45%	93%	
% anti-social behaviour cases resolved within locally agreed targets	100%	100%	93.87%	
% new tenancies sustained for more than a year - overall	96.88%	90.32%	93%	
% Tenants satisfied with the standard of their home when moving in	92.86%	95.45%	94.02%	
Gross rent arrears (all tenants) as a % of rent due	2.39%	4.43%	3%	
Average time to re-let properties	25.73	16.58	17	
% Lets to Nomination Homeless Applicants		22.22%		
% Lets to Other Nominations – non-homeless applicants		41.67%		
Housing - % Sickness rate	0.4%	1.29%	3%	

W360 – Fire Safety

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
Reduce the number of Accidental Dwelling Fires by 10% (West)	240	170	162	
Number of Accidental Dwelling Fires (East)		4		
Increase the number of Home Fire Safety Visits by 10% (Group)	2,182	2,258	2,319	

T - Loretto Care

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
Number of people we work for with unplanned move on	38	35	75	
% complaints responded to by Loretto within SPSO timescales	90%	90%	96%	
% complaints to Care Inspectorate upheld	0%	33.33%	0%	
% care services graded very good (5) or better in care inspections	75%	84.62%	90%	
Number of accidents and incidents reported to the Care Inspectorate	259	176		
Number of care inspection requirements received in year	0	2	0	
% sickness rate	5.12%	5.75%	5%	
% staff registered with appropriate body within first 6 months of starting post if register open (required by 2020)	100%	100%	100%	

U - Barony Care

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
Number of people we work for with unplanned move on	10	1	75	
% Care complaints responded to by Barony within SPSO timescales	80%	100%	96%	
% complaints to Care Inspectorate upheld	DIV/0	DIV/0	0%	
% care services graded very good (5) or better in care inspections	85.71%	62.5%	90%	
Number of accidents and incidents reported to the Care Inspectorate	54	77		
Number of care inspection requirements received in year	0	1	0	
% staff registered with appropriate body within first 6 months of starting post if register open (required by 2020)	100%	100%	100%	
Care - % Sickness rate	4.48%	3.95%	5%	

Y - A - YourPlace

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
Net Profit	£1,423,544.00	£1,239,077.00	£957,337.00	
Common charge arrears as a % of the annual common charges (excluding secured debt and payment plans)	14.65%	11.99%	15.5%	
Arrears Repairs	£1,175,718.17	£1,020,453.72	£912,185.00	
Arrears Capital investment	£2,693,693.61	£2,514,251.04	£2,450,000.00	
Total Stock factored by YourPlace	29,533	29,031	29,130	
YourPlace - Combined - % All complaints responded to in full within SPSO timescales	98.5%	97.2%	96%	

Z - A - Lowther Homes

Measure	2018/19	YTD 2019/20		
	2018	2019		
	Value	Value	Target	Status
Net Rental Income	£11,509,801.00	£8,762,541.00	£9,023,720.00	
Net Profit £	£4,318,820.00	£3,952,878.00	£3,887,528.00	
Gross rent arrears	2.26%	2.53%	2%	
Average days to re-let (amended) - FMR	34.9	42.56	25	
Average days to re-let (amended) - MMR	13.88	25.35	15	
All complaints responded to in full within SPSO timescale	93.8%	89.52%	96%	

Z - D - Commercial Properties

	2018/19	YTD 2019/20		
Measure	2018	2019		
	Value	Value	Target	Status
Arrears rate	4.37%	5.83%	5%	
Income	£2,311,208.36	£1,396,535.58	£2,112,200.00	

Appendix 2 - Wheatley Group Board - Delivery Plan 19/20 - Strategic Projects

Strategic Project	Delivery Date	Status	% Progress
Develop and implement governance monitoring arrangements for the renewal of core strategies policies and frameworks	31-Oct-2019		100%
Review approach to service charges	31-Oct-2019		100%
Work with Police Scotland to develop a Group wide Antisocial Behaviour and Crime Prevention and Mitigation Framework	30-Nov-2019		70%
Develop a proposal to support choice, innovation and efficiency in the delivery of adaptations	31-Dec-2019		0%
Develop Group Asset Strategy for Housing, Commercial and Care	29-Feb-2020		95%
Development Framework	29-Feb-2020		80%
Develop Group Homelessness Framework including rapid rehousing	29-Feb-2020		70%
Implement repairs improvement project phase 1	30-Mar-2020		70%
New Wheatley Graduate Development programme in place	31-Mar-2020		75%
Develop 2020-2025 Group workforce development plan	31-Mar-2020		0%
Leadership and development framework implemented	31-Mar-2020		75%
Procure Care IT platform	31-Mar-2020		0%
One Care Vehicle Phase 2	31-Mar-2020		90%
Co-create our new engagement approach	31-Mar-2020		80%
Complete implementation plan for migration of YP's business to	31-Mar-2020		0%

Strategic Project	Delivery Date	Status	% Progress
Lowther Homes including communication with regulators, communication with customers, notification of suppliers, assignation of contracts, and operational banking			
Customer Experience - online self-service and channel shift strategy approved and launched (YP)	31-Mar-2020		0%

Report

To: - **Wheatley Housing Group Board**

By: - **Elaine Melrose, Group Director of Resources**

Approved by: - **Martin Armstrong, Group Chief Executive**

Subject: - **Group Procurement – Annual Strategy**

Date of Meeting: - **19 February 2020**

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1. Purpose

1.1 This report presents the Wheatley Group Procurement Strategy 2020 -2022 and the updated Procurement Policy 2020 for approval prior to publication.

2. Authorising context

2.1 Under the Group Authorising Framework (GAF) and Intra-Group Agreement (IGA) the Group Board is responsible for approving Group Strategies and Group Business Plans.

2.2 The first Procurement Strategy was published in December 2016 and as a legal requirement has to be reviewed annually by 31 March. The Group's updated procurement strategy 2020 – 2022 (Appendix 1) has been developed to meet this requirement.

3. Risk appetite and assessment

3.1 Our agreed risk appetite relating to laws and regulations is "Averse". This level of risk tolerance is defined, as "Avoidance of risk and uncertainty is a key organisational objective".

3.2 The key procurement strategic risk (SSR15) for the Group is non-compliance with EU Regulation and Legislation relating to procurement and award of contracts. In relation to Brexit, the Scottish Government has confirmed its commitment to sustaining current procurement regulations.

Risk	Unmitigated Risk Score (Impact)	Mitigation	Mitigated Risk Score (likelihood)
Non-compliance with EU Regulation and Legislation	4x3	▪ Group and subsidiary standing orders ▪ Group procurement policy ▪ Mandatory training for all staff authorised to procure ▪ Procurement plans for above OJEU procurements ▪ Dedicated Procurement team with specialist knowledge / training ▪ Support from legal advice as required	3x2

3.3 The updated Procurement Strategy 2020 – 2022 and the associated policy (at Appendix 2), help us mitigate the risks of non-compliance with regulation and legislation.

4. Background

4.1 The Procurement Strategy is required to comply with legislative requirements for procurement and contracting arrangements due to our RSL partners being classified as Contracting Authorities under Section 15 of the Procurement Reform (Scotland) Act 2014. Guidance to support the Act sets out the necessary information that should be included as part of the procurement strategy with the emphasis being on providing a review of spend in the year gone and key procurement activities for the coming year. As such, the primary audience for the strategy is the external market as it gives an indication of the opportunities they might expect. The necessary elements within the strategy are addressed as follows:

- 12 month retrospective review of contracts awarded – see Appendix 1, Page 29;
- 12 month forward plan of future contract opportunities - see Appendix 1, Page 30;
- Community Benefits Delivery - see Appendix 1, Page 11; and
- Embedded compliance to legislation - see Appendix 1, Page 32.

4.2 The Group's external expenditure in 2018/19 was £263m across all subsidiaries, of which £192m was capital and £71m revenue expenditure. The projected spend for 2019/20 is £253m, and continues to see high capital spend in support of the new build housing programme. Key procurement highlights include:

- A £400m New Build Framework Agreement that was developed to meet the particular needs of group partners;
- A new framework for Mechanical and Electrical maintenance delivery;
- Over 20 Group wide contracts; and
- Introducing mandatory Passport to Procure training for staff across the Group.

4.3 These and other contracts have delivered community benefits for all Group partners. During 2019 the following was achieved:

- 113 work placements;
- 28 apprenticeships;
- 51 jobs created; and
- £898k value of work carried out in our communities.

4.4 We anticipate a further increase going forward with job and training opportunities made available to our customers as the new build programme continues to deliver at pace.

4.5 A highlight for 2019 was the introduction of MySavings, which looks to leverage our relationships and spend with suppliers to deliver savings for our customers on their everyday spending.

5. Discussion

5.1 Discussions were held with the Wheatley Solutions Board to inform the strategy. These highlighted that our approach to procurement has developed over the years and that it should continue to adapt. The main change has been a move from a transactional procurement approach i.e. single procurements for each project or new build site, to a more strategic approach that:

- looks to better reflect our group scale through bundling multiple-requirements in a single procurement exercise; and
- better captures the ethos of the group and our focus on outcomes for customers, as well as value for money.

5.2 The discussion also highlights the range of procurement approaches used and how these are, and will be, used to support delivery of the particular procurement priorities in the strategy.

<u>Managed Service Delivery</u>

5.3 Managed service delivery aims to take full advantage of the specialist skills, knowledge and technology available from our supply chain. Recent examples of this include:

- The introduction of a single insurance broker for the Group to ensure we maximise value for money through greater market insight and existing insurance specific networks; and
- Procuring a facilities management partner to consolidate the management and maintenance, of over 40 separate arrangements. This approach has allowed the group to benefit from specialist technical and compliance skills and technology, real time reporting and savings from increased scale and supply chain management expertise.

Bespoke Wheatley Frameworks

5.4 We are, and will continue to be, a leading delivery partner for the Scottish Government for new build. In keeping with this, a bespoke framework has been procured that reflects the particular needs of our group partners including the Wheatley Foundation (for Community Benefits). Having such a framework has also allowed us to mobilise quickly to meet the needs of DGHP, our latest group partner, with its plans to develop 1,000 new homes over the next five years alongside the new build ambition in our new group strategy.

National Framework Providers

5.5 We continue to use a range of national framework providers to meet our procurement requirements. Advantages to this approach include the avoidance of costly OJEU procurement processes, quicker routes to market and the ability to directly award work to pre-procured suppliers.

5.6 To ensure our future procurement requirements are being captured, we are increasingly taking an influencing role within national framework providers including:

- SPA (Scottish Procurement Alliance) – chair role and founder member of SPA, delivering procured solutions specifically for the housing sector;
- Scotland Excel – Judge of supplier awards. We continue to drive the importance of social value at user intelligence groups to inform strategy; and
- Scottish Futures Trust – As a partner, share industry knowledge and shape future construction requirements.

5.7 We also work closely with Scottish Government and other Public Bodies to collaborate on procurement matters to ensure the Group's supply requirements are considered and included within their procurement programme.

5.8 All of the framework providers we collaborate with cover all of Scotland. In addition, SPA are currently working with suppliers in Dumfries and Galloway to create a compliant procurement framework for the delivery of future trade specific contract requirements.

Self Service

5.9 We have also developed a range of online catalogued products to allow staff within Group to "self-serve" for low value non-complex requirements, for instance safety wear and stationery. In addition, for small contracts, simple to use templates will assist staff with undertaking tenders.

5.10 Staff undertaking their own procurement processes are supported through advice and guidance, examples of good practice and an on-going training.

5.11 The importance of our procurement activities contributing to strategic priorities in the group was also highlighted as part of the discussion with the Wheatley Solutions Board. Particular examples of this are highlighted below.

MySavings - Customer Value Delivery

5.12 MySavings was launched in June 2019 and continues to be developed, providing opportunity for our customers to save up to 10% on their weekly household expenditure. We intend developing the range of MySavings further through helping customers to access:

- Discounted energy tariffs;
- Affordable broadband;
- Discounts on white goods (cookers, washing machines, fridge-freezers);
- Discounted transport; and
- Access to jobs and training opportunities.

5.13 All of this will contribute to our strategic commitment to helping customer to save on the cost of their home.

Community Benefits

5.14 We have, and will continue to, lead the way in the use of Community Benefit requirements to help secure real economic and social benefit for our customers and communities through our procurement activities. Specific procurement requirements have delivered new jobs, apprenticeships, training opportunities and supply chain development activities for the community. An example of this is our new build contracts that include an enhanced community benefit of £775 per home. Funding is used to maximise learning, training and employment opportunities and support customers by alleviating the impacts of poverty.

Sustainability

5.15 In line with the Scottish Government policy on carbon reduction to net-zero by 2045, sustainability is rooted within all procurement activity. For example, our procured new build developments are designed to Scottish Building Standards gold aspect 1 and silver aspects 2 to 8, which exceeds the requirements set by many of our local authority partners. We are also the largest district heating provider in the UK and are recognised as an innovative energy supplier through delivery of district heating schemes embedded in our new build programme.

5.16 During 2020, the Group wide fleet specification and usage requirements will be subject to an independent review prior to re-procurement, sustainability including the ability to supply electric vehicles will be one of the key factors for selection of our new provider.

<u>Supporting digital</u>

5.17 The quick pace of technology innovation is likely to increase yet further and we are committed to developing services that allow our customers to benefit from this and make sure that no customer is left behind. This will require innovation and agile working with our known and future technology providers and partners. Technology start-up companies often do not have the financial certainty or ability to access national procurement frameworks. To address this we are developing models where we invite potential suppliers to work with the Group to develop a proof of concept, which illustrates the possible value. Where there is sufficient value we will then engage further to build prototypes before committing to full deployment. This approach helps to link our financial commitment to increasing confidence in the value that the potential digital solution will provide.

6. Conclusions

6.1 The attached procurement strategy and its key content is necessary to meet our obligations because the RSLs in our Group are defined as contracting authorities in applicable legislation.

7. Value for money implications

7.1 The key drivers for the Group value for money framework are customer service, investment in assets and improving repairs. These objectives are supported through savings as a result of leveraging the Group size in diverse ways including cheaper materials through combining requirements from multiple group partners and MySavings, which allow customers to benefit through the Group's spend.

8. Impact on financial projections

8.1 Effective procurement is a key approach to meet the Group business plan and identified savings targets.

9. Legal, regulatory and charitable implications

9.1 By publishing the Group Procurement Strategy by March 2020, we are meeting our legal obligation and adhering to government requirements. All procurement within Group adheres to legislative requirements.

10. Partnership implications

10.1 Discussions with the Wheatley Solutions Board has helped inform the draft strategy. As part of delivering the strategy we work in partnerships with Scotland Excel and SPA to ensure our involvement in best practices within the procurement community and to allow us to make use of more scale where appropriate. The information in the strategy supports potential suppliers in understanding and planning for our upcoming spend.

11. Implementation and deployment

11.1 The strategy will be published on our website and intranet, and training, guidance and advice will be provided to staff as needed. This will supplement mandatory online learning through “Passport to Procure”. Our procurement Policy at Appendix 2 has been updated to reflect GDPR, revised contract management arrangements and delivery of the procurement strategy.

12. Equalities impact

12.1 The need for an equalities impact assessment is included as part of our procurement policy.

13. Recommendations

13.1 The Board is asked to approve the:

1) proposed Wheatley Group Procurement Strategy (2020 – 2022); and
2) proposed Wheatley Group Procurement Policy 2020.

List of Appendices

Appendix 1 – Group Procurement Strategy 2020 – 2022
Appendix 2 – Group Procurement Policy 2020

Group Procurement Strategy

2020 –2022

We can produce information on request in large print, Braille, tape and on disk. It is also available in other languages. If you need information in any of these formats please contact us on Freephone 0800 479 7979.

如果你向我們提出要求，我們可以爲你提供本資訊的其他語言的版本，或者是盲文或磁帶。如果你需要本資訊的任何一種這些版式的版本，請聯繫我們，電話號碼是 0800 479 7979.

Si vous nous le demandez, nous pouvons vous remettre ces informations en d'autres langues, en braille ou sur cassette. Si vous souhaitez que ces informations vous soient fournies sous l'un de ces formats, contactez-nous en composant le 0800 479 7979.

چنانچه مایل باشید می‌توانید این مطالب را به فارسی یا زبان‌های دیگر و همچنین بریل و یا بر روی نوار کاست دریافت دارید. در صورت نیاز خواهشمندیم با شماره تلفن 0800 479 7979 با ما تماس بگیرید.

ਜੇ ਤੁਸੀਂ ਸਾਨੂੰ ਬੇਨਤੀ ਕਰੋਂ ਤਾਂ ਅਸੀਂ ਤੁਹਾਨੂੰ ਇਹ ਜਾਣਕਾਰੀ ਹੋਰ ਭਾਸ਼ਾਵਾਂ, ਬ੍ਰੇਲ (ਨੇਤ੍ਰਹੀਣਾਂ ਲਈ ਭਾਸ਼ਾ) ਵਿੱਚ, ਜਾਂ ਟੇਪ ਉਪਰ ਦੇ ਸਕਦੇ ਹਾਂ। ਜੇ ਤੁਹਾਨੂੰ ਇਨ੍ਹਾਂ ਵਿੱਚੋਂ ਕਿਸੇ ਰੂਪ ਵਿੱਚ ਚਾਹੀਦੀ ਹੋਵੇ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਸਾਡੇ ਨਾਲ 0800 479 7979 ਨੰਬਰ ਤੇ ਸੰਪਰਕ ਕਰੋ।

Na Pana/Pani życzenie możemy zapewnić te informacje w innych językach, alfabetem Braille'a lub na kasecie. Jeśli chciał(a)by Pan(i) uzyskać te informacje w którejś z tych form, prosimy skontaktować się z nami pod numerem telefonu 0800 479 7979.

Haddii aad na weydiisato waxaanu warbixintan kugu siin karaa iyadoo ku qoran luuqad kale, farta ay dadka indhaha la' akhriyaan ama cajalad ku duuban. Haddii aad jeclaan lahayd in warbxintan lagugu siiyo mid ka mid ah qaababkaas, fadlan nagala soo xidhiidh telefoonka 0800 479 7979.

По вашей просьбе данная информация может быть предоставлена на других языках, шрифтом Брайля или в аудиозаписи. Если вам требуется информация в одном из этих форматов, позвоните нам по номеру 0800 479 7979.

Name of Strategy	Procurement Strategy
Responsible Officer	Laurie Carberry Group Procurement Manager
Date approved by Wheatley Board	19th Feb 2020
Date of next formal review	Feb 2021

The Wheatley Group will provide this strategy on request at no cost, in large print, in Braille, on tape or in other non-written format, and in a variety of languages.

Application of this Strategy to all Wheatley Group Staff

Mandatory	x
Variation possible	
Framework only	
Local policy required	

HAPPY TO TRANSLATE

CONTENTS

Section 1 - Introduction

Wheatley in 2020 – our track record of Excellence

Owning or managing over 91,000 homes, Wheatley delivers award-winning services to over 200,000 people across Scotland. Wheatley employs 2700 people directly and a further 2000 as joint owners of one of Scotland's largest repairs and maintenance companies, City Building (Glasgow). Group subsidiaries are united by a common commitment to excellence in all they do and a joint mission in 'Making Homes and Lives Better' for the people they work for and the communities in which they live.

Wheatley and its partner organisations continue each year to win national and international awards and accreditations from organisations ranging from the European Foundation for Quality Management to Investors in People, Investors in Young People and the UK Government Cabinet Office, which oversees Customer Service Excellence.

Investing in Our Futures Wheatley Group's first five-year strategy, delivered outstanding customer satisfaction and raised the bar in Scotland and beyond for performance results and business efficiency in housing, care and property management. We have succeeded in our challenging goal of keeping rents affordable whilst delivering unparalleled growth and investment, maintaining investor confidence and bringing access to affordable borrowing for asset growth and service improvements.

Similarly, the Wheatley Procurement Team we have achieved sector-leading results within the Scottish Procurement Capability Assessment (PCIP) which is an external assessment of procurement practices carried out by Scotland Excel. We employ innovative approaches to procurement, delivering best value for our customers whilst raising the bar for Community Benefit outcomes.

The Wheatley Group spend on procurement across the Scottish economy runs to £253 million per annum. We partner with Local Authorities to provide over 91,000 safe, affordable homes across Scotland

<u>Who We Are</u>

Wheatley Housing Group Limited (the Group) is Scotland's leading housing, care and property management group. We are a dynamic and growing organisation, which currently comprises of seven Registered Social Landlords, a care organisation and two commercial subsidiaries.

The Group currently spans 18 Local Authority areas across Central Scotland providing homes and award winning services to over 250,000 people.

All parts of the Group are firmly rooted in their local communities. However, by joining forces, our partner organisations are delivering much more for their customers by using the combined size and scale, they are contributing to improving housing, care and regeneration at a national level.

Our Group partners are:

<u>Registered Social Landlords:</u>

- **Glasgow Housing Association**, Scotland's largest social landlord, with almost 40,000 affordable homes in Glasgow
- **Dumfries and Galloway Housing Partnership,** which manages more than 10,000 homes across Dumfries and Galloway
- **Dunedin Canmore**, with 5,500 homes in Edinburgh, the Lothian's and Fife, and a providing property management, repairs and maintenance service
- **Cube Housing Association**, with more than 3500 social homes across the West of Scotland
- **Loretto Housing Association**, with 1300 affordable homes in the central belt
- **West Lothian Housing Partnership**, with almost 400 affordable homes
- **Barony Housing Association**, whose 360 general needs properties are being transferred to Dunedin Canmore and West Lothian Housing Partnership in early 2020

<u>Other Partners:</u>

- **Loretto Care**, which provides care and support services to 3000 people every week and will take over the care responsibilities of Barony Care early in 2020
- **YourPlace Property Management**, Scotland's "Feel Good Factor", providing services to almost 32,000 customers
- **Lowther Homes**, which manages a growing portfolio of more than1600 mid and full-market apartments from across Scotland's central belt.
- **Wheatley Solutions**, where 500 people work to provide a range of internal support services to the Group's partner organisations
- **Wheatley Foundation**, which invests over £5 million annually on improving the life opportunities of disadvantaged people in Wheatley communities
- **City Building (Glasgow) –** with over 2000 employees, it is owned by WHG and Glasgow City Council and provides repairs and maintenance services

Section 2 – Vision & Objectives

Wheatley in 2025 – our vision

The **Wheatley Group vision** is:

"For our customers to feel they have control over their services, their community and their life."

Our strategy for making this real will deliver an unprecedented shift in the balance of power and control towards our customers, empowering customers to make their own choices about the services wanted, ensuring they are properly equipped to do things for themselves and involving them in the design of products and services from start to finish.

The **Procurement Vision** is:

"To be recognised as a leading innovator within the procurement sector, delivering best value and community benefits for our stakeholders and our customers."

In this, our Procurement Strategy for 2020 – 2022, we detail our objectives for the next two years and how we intend to achieve these.

Public Procurement Core Principles

Public procurement is based on four basic principles:

- **Transparency** – the reasons for procurement decisions must be clear for all to see.
- **Accountability** – The Group is required to be accountable to our Board, stakeholders and customers for all decisions that we make when spending money. This principle requires that decision-making can be audited to ensure consistency with other principles and that any potential conflicts of interest are avoided.
- **Fairness** – All parties involved in procurement decisions must be treated fairly, with no potential supplier being treated either more or less favourably than any other potential suppliers. This also means that contract opportunities must be advertised widely enough to ensure that genuine competition between suppliers is possible.
- **Proportionality** – The requirements made of potential suppliers must be made on a scale, which is consistent with the type and size of the contract opportunity.

Procurement Objectives

The Scottish Government Procurement Model is the basis for our procurement strategy (Fig 1)

- Improving supplier access to public contracts;
- Delivering savings and benefits for internal and external stakeholders;
- Maximising efficiency and collaboration sector wide; and
- Embedding sustainability in all opportunities.

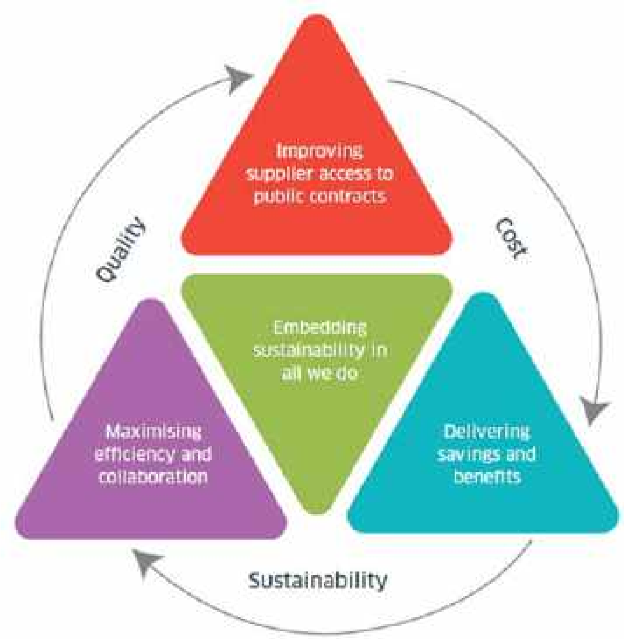


Figure 1

The Scottish Government model has helped to shape Group Procurement Objectives, as demonstrated:

- To change supplier and internal behaviours, improve procedure and policies through;
  - improving contract and supplier relationship management
  - changing the culture of procurement team from transactional to strategic

- To deliver savings, value for money and best value through;
  - improving collaborative working and challenging the status quo
  - efficiencies of scale across the Group while recognising individual needs of customers and suppliers

- To increase expertise, capacity and effectiveness through;
  - reviewing procurement responsibilities and streamlining processes
  - building capability by developing procurement understanding in staff across the Group

- To embed sustainable procurement as business as usual through;
  - maximising Community Benefits in all appropriate contracts and supporting local businesses
  - encourage innovation towards sustainability in our procurement

Section 3 – 2019 Performance

Group Procurement Activity in 2019

Wheatley Group continued to contribute to effective cost management by leveraging opportunities through the size and scale of the Group, while retaining its roots in local communities. This will be delivered through large-scale framework contracts, procured by the Group or utilising external frameworks, which incorporate community benefits. We will have a key role in monitoring savings and value for money including community benefits.

Substantial progress was made over 2019 with Group wide contracts replacing some of the historic contracts specific to individual RSLs. New contracts have been established through the Group as the lead procurement body on behalf of the Group's subsidiaries to maximise flexibility and leverage value for money. Where a procurement process is specialist in nature for a specific subsidiary or customer, group consideration will be given to the "contracting authority" on a case-by-case basis. We have recently incorporated contracts allied to our newest addition to the Group, Dumfries and Galloway Housing Association.

Procurement is not just about cost and quality, it encompasses the wider elements of sustainability, economic, social and environmental measures to generate savings and identify efficiencies that can be reinvested in other areas of the Group. As an evolving business with an expanding group structure, it is essential that this Strategy is part of a coherent strategic approach that complements and is aligned with our Group strategic documents.

The approach to procurement has changed over the years and will continue to develop as the Groups requirements change. The Group has moved from transactional approach to an approach that benefits from scale, allowing staff to self-serve within a defined operating framework.

As part of this, the Procurement team act as enablers in the design and innovation of Group approaches; looking to our external partners for learning and improvement where beneficial.

A note of future procurement opportunities of Group nature l above OJEU thresholds is provided at Appendix 1.

Group Procurement Spend

External spend in 2018/19 totalled £263m across all subsidiaries. The breakdown of this spend is £192m of expenditure was capital and £71m was the revenue expenditure. The projected spend for 2019/20 is to be £253m, which continues to see high capital spend in support of the new build housing programme.

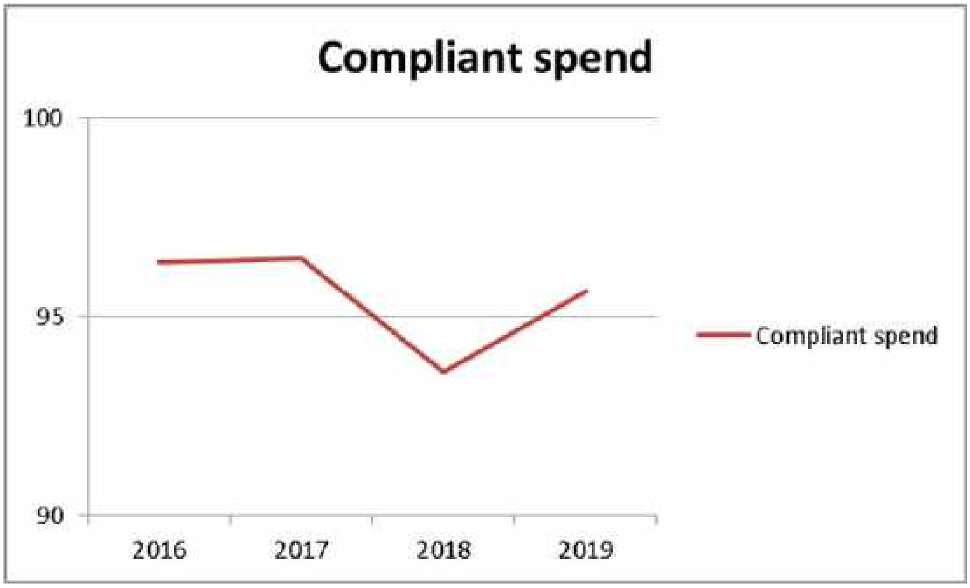
The Group budgeted spend for goods, services and works was delivered using a combination of existing contracts, use of external frameworks, procurement of new contracts and frameworks.

Supplier Management

A measure of this success can be seen within the reporting figures for contracted and non-contracted spend across the Group. We can view the high volume and/or high spend suppliers clearly and know the contracted spend percentages at any given time. The Group is in a position of strength to identify non-contracted spend and either switch supplier or find a route to ensure the incumbent supplier is compliant.

The Group has an overall compliance of contracted spend of 95.85%.

The dip in the latter half of 2017 into 2018 is from Dunedin Canmore and Barony joining Group, which increased our cumulative spend by approximately 5.3%. The recovery from this dip has been steady, even against an upwardly moving target and we are on track to hit target this year.



Building Capability

During 2019, the Group's knowledge and experience of procurement was enhanced by the introduction of our online learning tool "Passport to Procure". An innovative training programme specifically designed to help Group staff understand the importance of undertaking procurement activity well.

Procurement includes supporting the role of suppliers in the Group's business continuity arrangements. Collaborative working with the Groups business continuity team, to improve the robustness of our business continuity plans through desktop and scenario testing with our supply chain and building requirements where appropriate into our contracts.

Procurement Highlights for 2019

The Group have delivered significant improvements and benefits to our customers and communities.

Some examples are:

- Delivered a £400m New Build Framework Agreement
- Launched 'MySavings' to deliver distinct commercial benefits to Wheatley customers
- Delivered Community Benefit of £300k in donations and 192 employment opportunities
- Leading a utilities strategic business change programme
- Leading a transformation of Mechanical and Electrical maintenance delivery
- Awarded Group wide contracts for;
  - Multi storey flats inspections
  - Repairs management integrated system
  - Corporate cleaning
  - Insurance portfolio
  - Secure Document Archiving & Scanning
  - Corporate Print & Storage
  - Water Coolers & Associated Services
  - Hotel & Travel Booking Services
- Passport to Procure training programme adopted Group wide
- Used external assessment and accreditation to improve and measure our activities
- Chair of the Scottish Procurement Alliance (SPA) to influence and shape the national procurement strategy and collaboration

New Build Homes

In April 2019, a 4 year New Build Housing & Associated Works Framework was created to facilitate the delivery of a potential portfolio of around £400m of new build homes. Safeguarding the delivery of the Group New Build programme across various market areas and allowing the Group to utilise optional routes to market.

In the first year of establishment, the framework has delivered in excess of 500 homes across several local authority areas, some of which have been challenging due to remote location and complex site conditions.

The benefits of building new, affordable homes are considerably greater than bricks and mortar; they create better homes and better lives. New homes have a life changing impact on our customers' lives, providing greater choice and improved health and wellbeing whilst responding to population growth and demographic diversity.

Incorporated within the framework is an enhanced community benefit of £775 per home, which will benefit and support the creation of these new communities, preserving their success and building a legacy. Whilst also delivering jobs and training opportunities that will be offered to Wheatley customers.

Community Benefits

The Group is committed to making maximum use of Community Benefit requirements to help secure real economic and social benefit for our customers and communities through our procurement activities.

Procurement initially opens up the dialogue for discussions with suppliers through the tendering process and ensures a secured commitment to maximise economic and social benefits through this investment.

The Group is therefore able to deliver new jobs, apprenticeships, training opportunities and supply chain development activities for the community. In particular, Procurement ensures compliance in terms of Construction related contracts and the obligation of the Contractor therein, which is mandatory requirement captured through the terms of the Contract.

Community Benefit requirements are outlined via an action plan with achievable targets and suppliers encouraged to discuss innovative ways in which they may approach and deliver these benefits. The relationship is developed, continuously improved, further enhanced with benefits tracked and monitored by our Community Benefits Team.

This year, new indicators for business engagement, and qualifications for priority groups, were included in our Community Benefit requirements. Working closely with our contractors and suppliers, we have achieved a range of opportunities for both Wheatley customers and people living in our communities. This ranges from supporting 192 jobs, placements and apprenticeships and delivering CV building workshops, to renovating community gardens for the use of local people and their children. We continued to direct community benefits to local neighbourhoods throughout the year and our contractors and suppliers have donated an equivalent of £300k of community donations and in-kind contributions.

The full Community Benefits Review is available at www.wheatley-group.com

MySavings

Wheatley is committed to helping customers reduce the cost of running a home and believe that there is scope to achieve this through making the most of our expertise and spend. To assist this, we have developed MySavings - a dedicated website for our customers through which access is provided to discounts or cashback offers of up to 10% on everything from food shopping to utilities and services.

MySavings was launched in June 2019 and continues to be developed, providing opportunity for Wheatley customers to save on their weekly household expenditure. We intend developing the range of MySavings further through helping customers to access:

- Discounted energy tariffs through energy suppliers;
- Affordable broadband;
- Discounts on white goods (cookers, washing machines, fridge-freezers);
- Discounted transport; and
- Access to jobs and training opportunities.

We will continue to assess the impact of this product with our customers to ensure it provides them with excellent value and we will introduce a greater range of partners with more personalisation of products and services to suit customer needs and expectations.

Sustainability Strategy

Effective procurement will complement our goals for maintaining awareness of sustainability issues amongst staff and customers, delivering excellence within financial constraints, meeting tougher statutory targets, increasing our energy efficiency, reducing emissions and tackling fuel poverty. We expect our suppliers to meet our standards for sustainability as set out in our Sustainability Strategy. The requirements will vary according to the commodity being procured but we expect our suppliers to demonstrate their compliance with good sustainability practice throughout the supply chain.

Implementation

A range of activities have been identified which will allow us to achieve our aims and objectives. These are divided into the following three areas, more detail on which can be found in the following tables contained within Section 6:

a) Strategy, Policy and Advice
b) People and Organisations
c) Processes and Systems

Section 4 – Strategy 2020 - 2022

The Wheatley Group approved our new strategy 'Inspiring Ambition' 2020 –2025 late last year; a copy of the strategy can be found at www.wheatley-group.com

The golden threads that run through this ambitious strategy include:

- Delivering Exceptional Customer Experience
- Making the Most of our Homes and Assets
- Changing Lives and Communities
- Developing our Shared Capacity
- Enabling our Ambitions

Our procurement strategy has a key role to play in the delivery of our new strategy as identified within appendix 1, future contract opportunities.

New Build Homes – The future

Wheatley will continue to play a leading role as a key delivery partner for the Scottish Government for new build. We will champion the on-going supply of high quality, affordable homes, where needed.

Dumfries and Galloway Housing Partnership (DGHP), our latest group partner, has plans to develop 1,000 new homes across Dumfries and Galloway over the next five years. Across the Group, it is likely that in excess of 500 new homes will be developed year on year within this period, bringing the total to 3,500 new homes in a 5-year plan. This level of development provides opportunities which we will take to truly transform communities.

Blending digital and personal

The already quick pace of technology innovation is likely to increase yet further. At Wheatley, we want to develop services that allow our customers to benefit from this and make sure than no customer is left behind. This will require customer insight, innovation and agile working with our technology providers and partners.

Community benefits

Wheatley and our suppliers have an enviable reputation for making a positive difference in people's lives. We will continue, through our approach to community benefits, to focus on ensuring that our procurement spent derives benefit for our customers and their families. This will require approaches tailored to particular customer and community needs in areas ranging from urban Glasgow to rural Dumfries and Galloway.

Section 5 – Compliance

Compliance with Procurement Legislation

The Scottish Government continues to promote a national programme of public sector procurement reform to drive continual improvement in procurement practice and we endorse and support that position. The Strategy recognises that the Wheatley Group and its subsidiaries, as a contracting authority are subject to the application of the legislative requirements which bind public procurement practice in Scotland namely:

- EU Directive 2014/24
- The Procurement Reform (Scotland) Act 2014
- Public Contracts (Scotland) Regulations 2015
- Procurement (Scotland) Regulations 2016

It is further acknowledged that all procurement activity must conform to the processes and governance detailed in the Group's Standing Orders, Procurement Policy

The new legislation has introduced additional requirements for contracting authorities to demonstrate transparency and equal treatment of suppliers.

In order to increase transparency and treat all suppliers equally and fairly, the Group has committed to undertaking all contractual requirements in accordance with agreed methodologies and maintain an audit trail throughout the process.

The Procurement Team will provide advice to business leaders and budget holders on procurements that are low value, non-complex or not Group wide to support best practice.

Financial Value	Process	No. of Suppliers
Below £25,000	Guidance on 'WeConnect' that must be followed to achieve best value and Guidance to operate with Group Standing Orders *Stakeholder Led*	
£25,000-£50,000	Guidance on 'WeConnect' that must be followed to achieve best value and guidance to operate with Group Standing Orders. Quick Quote process via PCS Quality / Price can be used. *Stakeholder Led*	3 – 5
£50,000 – below OJEU thresholds	Guidance on 'WeConnect' that must be followed to achieve best value and guidance to operate with Group Standing Orders. Tender process via PCS Quality / Price *Stakeholder Led*	As per procurement strategy documentation.
Slice: £2m-EU	Tender process via PCS	As per procurement

threshold (works)	Quality /Price *Procurement Team to undertake*	strategy documentation.
Over OJEU thresholds	OJEU process via PCS Quality /Price *Procurement Team to undertake*	As per procurement strategy documentation.
Not applicable	Waiver Approval Form and Guidance documentation. *Stakeholder Led and Reported.* *Procurement Team to be advised.*	Single Supplier

Section 6 – Implementation

a) Strategy, Policy and Advice			
Collaboration between stakeholders and the Procurement team will identify how we can add most value to support delivery of the Group's strategic priorities. We will continue to provide excellent customer service to our customers and suppliers and act as a centre of excellence of procurement for the Group. We have developed a clear procurement policy and supplementary guidance for staff on how to purchase goods, services and works. We will work closely with business owners and budget holders in respect of producing a culture of trust and innovation and aim to deliver right-first-time services. We will also continue to ensure compliance with relevant legislation and integration with Group policies and processes by regular review of our processes and regular training of our staff.			
Identified Factor	**Future Priorities**	**How**	**Target Date**
Procurement Strategy	The Procurement Team will work with business owners, budget holders, customers, key stakeholders and suppliers to regularly review this Strategy.	Workshops with key stakeholders On-going review for publication annually.	Dec 2020
Best Value / Value for Money	The Procurement Team will, in line with legislation, award all contracts on the basis of the 'Most Economically Advantageous Tender' (MEAT) principle. In each regulated procurement we will consider the key principles set out in this Strategy and award contracts in a clear, transparent and proportionate manner. It will be ensured that applied ratios (cost/quality) are rigorously tested prior to advertising. The applied ratios will take into account qualities such as continued costs, whole life costing throughout the life cycle of the contract, financing and depreciation. The Procurement Team will also ensure that in all procurement activity economic operators are treated equally and without discrimination, in order to encourage greater competition, promote innovation and encourage a wider range of economic operators to become involved in public procurement. This will assist in delivering value for money and achieving Best Value.	Training and awareness sessions for the Procurement Team. Contractual obligations contained within the terms and conditions of engagement. Monitored and reported via KPIs	Ongoing

Excellent Service Delivery	The Procurement Team will support customers, business owners, budget holders and stakeholders to delivery excellent customer service and save money across the group.	Procurement Team attendance and input to project groups, tendering, general advice and supporting alternative delivery models. Introduction of “Customer Accounts” and account management	Ongoing
Communication	We will engage and communicate effectively with all internal and external stakeholders, including community representatives and user groups affected by the procurement, to ensure those affected directly and indirectly by regulated procurement are considered. We will do this by market testing, supplier engagement, and feedback sessions with stakeholders at all stages throughout the procurement process and UIG meetings with internal team members. In doing so, we will consider the best practice principles set out in the National Standards for Community Engagement. The outcomes of these consultations will then be considered and outputs will be used to assist in implementing our procurement policy. We will ensure that local suppliers and SMEs are aware of how to tender for our contracts and we will ensure our tender processes reflect a local dimension where this is appropriate. All regulated procurement opportunities shall be advertised on Public Contract Scotland.	Training and awareness sessions for staff. Regular meetings with suppliers. Introduction of ‘Customer Accounts’ and account management Membership with ‘SDP’ to ensure we provide our suppliers with all the necessary advice and support.	Ongoing
Individual Needs	We will utilise our collective strength to procure goods and services which meet the needs of the Group, while recognising individual and specialist needs of particular customer groups.	Regular UIGs with all stakeholders.	
Supplier Management	We will continue to develop strong working relationships with our supply chains to ensure high quality, cost effective services. We will carry out our regular reviews of our supplier database to increase efficiency and drive effective working practices.	Regular meetings with suppliers. Use of Supplier KPI Scorecards	Ongoing

	We will continue to host our successful "Meet the Buyer" events, where SMEs and other businesses can meet with public sector buyers and find out more about what we procure, and how.		
Compliance with Procurement Legislation **EU Procurement Directive 2014/24/EU** **Procurement Reform (Scotland) Act 2014** **The Public Contracts (Scotland) Regulations 2015** **The Procurement (Scotland) Regulations 2016**	We will support all Group and subsidiaries to act in accordance with the Groups Standing Orders, the Procurement Policy and Procurement Manual. We will ensure all updates are implemented where not already in place by the completion date: • Agree revisions required to the procurement strategy on an annual basis. • Continue to promote e-tendering for all tender. • Continue to consider lot structure within tenders to ensure quality and opportunity for SMEs. • Increase market research at strategy stage. • Incorporate new legislation within tendering and evaluation procedures. • Update our processes to enable use of the European Single Procurement Document ("ESPD")	Training and awareness sessions for staff. Introduction of "Passport to Procure" eLearning to support staff.	Ongoing
Performance Framework	We will review our compliance regime to monitor "off contract" expenditure and manage the transition to a 100% compliance target from a number of legacy contracts and informal procurement arrangements.	A performance framework to monitor KPIs including off contract spend.	Ongoing
Document Standardisation	We will undertake a complete review of all procurement standard documentation to take cognisance of legislative change. Regular review meetings are held with the legal team and documentation is kept up to date according to legislation and lessons learned.	Review of documentation by Legal team. Regular review to take account of good practice. External legal advice sought to provide updates to latest	Ongoing
Terms and Conditions	We will support the business to use standard terms and conditions for all low value procurement in accordance with the Group Standing Orders, the Procurement Policy and Procurement Manual.	Provide access to template documents on 'WeConnect'. Training and awareness sessions for staff. Regular review for compliance.	Ongoing

Contracts Register	We will publish our contracts register on our website at www.wheatley-group.com. The Register is a live document and is updated on-going basis.	Procurement Team will be responsible for managing the Contract Register on behalf of the Group. The Contract Register will be regularly updated.	Ongoing Ongoing
Community Benefits	We will build from our good practice and look to apply robust, relevant and proportionate Community Benefit Clauses at every appropriate opportunity and in line with the legislative requirements outlined in the 2014 Act and the 2016 Scottish regulations. We will ask suppliers to deliver new jobs, apprenticeships and training opportunities through their Community Benefit requirements. In utilising Community Benefit Clauses, the Procurement Team will seek to achieve the aims and objectives of the Wheatley Foundation and improve the economic, social or environmental well-being of the local areas in which they operate. In order to do so, we will engage with the local community in order to understand the needs of the area and tailor Community Benefit Clauses to their requirements.	Inclusion of a Community Benefit Clauses in all procurement above £2m for 'Works' contracts and for all other contracts consideration where feasible Engage with our suppliers to contribute to the Wheatley Foundation.	Ongoing
Small – medium sized enterprises (SMEs)	We recognise that procurement activities can contribute to our local communities. In this regard, we will ensure that local suppliers and SMEs are aware of how to tender for our contracts and we will ensure our tender processes reflect a local dimension where this is appropriate.	Introduction of our "Quick Quote" system for lower value/ lower risk procurement Review all larger procurements strategies to consider the option of splitting them into smaller lots, which may encourage SME and Micro business participation.	Ongoing
The Living Wage	We are committed to fair work practices and the Procurement Team will encourage and promote the payment of the Living Wage to all employees servicing the Group through external contracts, in line with Scottish Government Guidance on the Living Wage. This will be promoted through all tender exercises conducted by the Procurement Team and considered alongside other relevant factors at the	Scored in accordance with the quality evaluation criteria contained within each procurement. Contractual obligations contained within the terms and conditions of engagement. Monitored and reported via	Onwards

	outset of each procurement to ensure an appropriate balance between quality and cost and on a proportionate basis based on the scope, size and place of performance of each contract. The Procurement Team will promote and evaluate fair work practices including the living wage as an element of quality within a tender.	KPIs	
Supported Businesses & Social Enterprises	In line with Regulation 21 of the Public Contracts (Scotland) Regulations 2015 we reserve the right to participate in procurement for the award of a public contract or framework agreement to a supported business or to provide for such a contract or framework agreement to be performed in the context of a supported employment programme.	Identify opportunities to develop and support enterprises which fit with our vision and business needs.	Ongoing
Health and Safety	We will support the Group's commitment to compliance with the Health and Safety etc. Act 1974 and all related provisions and legislation including the Construction (Design and Management) Regulations 2015 and we will expect all of our suppliers to fully comply with the legislation and promote good working practices throughout the supply chain. Assessment of health and safety requirements will be considered on a case-by-case basis and will be monitored by contract managers on an ongoing basis to ensure compliance. We expect suppliers to be responsible for implementing measures to respond to identified risks and will ask suppliers where appropriate for evidence of said measures and of compliance with health and safety legislation.	Promotion through all tender exercises conducted by the Procurement Team.	Ongoing
Fair and Ethical Trading	In support of Scotland's Fair Trade Nation status, we will look to demonstrate delivery of real and lasting impact by reducing poverty and improving the lives of people in the communities that we serve. We will also work with existing suppliers to increase the range and availability of fair and ethically traded goods and services. We will seek assurances of fair and	Include a requirement for suppliers to evidence their commitment to fair and ethical traded goods and services to be included in their Expressions of Interest and Tenders.	Ongoing

	ethical practices in supply chains from our suppliers and will include conditions relating to the performance of the contract to ensure that the economic operator complies with environmental, social and employment law. We will also consider lifecycle costing as part of our tender processes.		
Prevention of Modern Slavery	We will put in place safeguards in our contracts to prevent the use of slaves in compliance with the Modern Slavery Act 2015.	We shall implement this through the use of clauses in technical specifications, award criteria or contract conditions and is embedded within our procurement policy.	Ongoing
Provision of Food	In all regulated procurements relating to food we will actively consider how we can improve the health, wellbeing and education of the local communities that we serve, in line with our sustainable procurement duty. We shall actively consider animal welfare standards in the context of each relevant regulated procurement and will promote the highest standards of animal welfare with our suppliers.	Promotion through all tender exercised conducted by the Procurement Team.	Ongoing
Sustainability and the Sustainable Procurement Duty	In line with our sustainable procurement duty we will take a robust approach by actively considering all sustainability issues at the outset of any regulated procurements to support the Group's Sustainability Strategy. This will include considering whether or not to include Community Benefit Clauses at every appropriate opportunity in order to improve the social, environmental and economic wellbeing of the areas in which we operate. The Procurement Team will review all larger procurements to consider the option of splitting them into smaller lots in order to facilitate greater access to procurements and promote innovation. The Scottish Government's Scottish Public Procurement Prioritisation Tool and Sustainability Test will be utilised in order to assess sustainability risks and opportunities in line with the Group's Sustainability Strategy.	Training and awareness sessions for staff. We shall implement this through the use of clauses in technical specifications, award criteria or contract conditions. Monitored and reported via KPIs.	Ongoing
Payment Terms	We will support requisitioners and approvers across the Group to ensure that all purchasing is carried out using	Contractual obligations contained within the terms and conditions of	Ongoing

	approved system and processes including Purchase to Pay (P2P) and will seek to ensure that the following payments are made within 30 days after a valid invoice for payment is presented: • Payments due by the Group to a contractor • Payments due by a contractor to a sub-contractor • Payments due by a sub-contractor to a sub-contractor Contractual provisions relating to payment terms will be incorporated into the terms and conditions of each regulated procurement.	engagement. Monitored and reported via KPIs.	
Business Continuity	We will support the Group's business continuity arrangements by working with key suppliers who will help to provide the Group's response in the event of a business impact event.	Contractual obligations contained within the terms and conditions of engagement. Monitored and reported via KPIs.	Ongoing
External Audit	We will comply with legislative requirements to undertake external audit.	Formal Request from Scottish Government.	Ongoing

b) People and Organisations			
Effective implementation of this Strategy is dependent on having staff with the right skills and experience in place with strong professional relationships with client departments and suppliers. We seek to empower staff with the correct training and skills to provide an excellent customer service experience and to allow for asset growth. We identify that developing collaborative relationships across the sector will help us to deliver on our key strategies.			
Identified Factor	**Future Priorities**	**How**	**Target Date**
Customer Service	We pride ourselves on our excellent customer service and in line with our Key Strategic Platform for Customer Service Excellence we will continue to provide excellent customer service and supplier contract management by building strong and positive professional relationships.	Training sessions for the Procurement Team.	Ongoing
Group Growth	As the size of our Group increases we will agree a transition plan for consolidation of the supply base, taking into account the types of contracts in place, geographical diversity and length of contract for new Group partners/subsidiaries.	Transition plan for contracts for DGHP (Dumfries and Galloway Housing Partnership)	Ongoing
Training	We will support procurement staff to become professionally trained and all permanent staff are encouraged to undertake regular Continuous Professional Development. Introducing the rollout of our online training for Service Department staff 'Passport to Procurement' to increase confidence and ensure compliance for dealing with procurements of low value or little risk where business units are required to undertake the process utilising 'Quick Quote' procedure.	Professional training programme for all procurement staff. Introduction of Passport to Procurement for all staff involved in procurement.	Ongoing
Collaboration	We will seek out opportunities to use collaborative contracts established by other organisations (including central government procurement service, Crown, Scottish Government, Scotland Excel, Scottish Procurement Alliance, Local authorities, Procurement for Housing etc.) where it offers us better value for money than conducting our own procurement and meets our business needs.	Engagement with external framework providers.	Ongoing
Criminal Convictions/ Serious and Organised Crime	We view criminal conduct of our suppliers very seriously and work closely with Police Scotland including an Information Sharing Protocol. As a	Implement Information Sharing Protocol.	Ongoing

	standard term of contract we require all suppliers to complete a Declaration of Non-Involvement in Serious and Organised Crime. We are expressly required to exclude a business from bidding if it, or someone who holds a senior position in it, has been convicted of specific offences as detailed in the Procurement Reform (Scotland) Act 2014 unless there are exceptional circumstances.	 Use of appropriate clauses in tender documentation.	
Exclusion of Bidders	The Procurement Reform (Scotland) Act 2014 Act and the Public Contracts (Scotland) Regulations 2015, specifically Regulation 58, detail that as a contracting authority we are required to exclude a potential supplier from bidding for contracts for reasons as detailed in the aforementioned legislation. Such exclusions are subject to statutory time limits. Furthermore, the legislation allows us to use our discretion to exclude bidders where the specific circumstances as set out in Regulation 58 of the aforementioned regulations are met. In terms of Regulation 58(13) of the Public Contracts (Scotland) Regulation 2015, suppliers who are in breach of certain exclusion grounds have the ability to 'self-clean' by providing a summary of the circumstances and any remedial action taken. We will consider the sufficiency of any such evidence submitted in line with the legislation, and if deemed sufficient will not exclude the supplier. If the evidence is deemed insufficient, we will give the supplier a statement of reasons for this decision. We expect main contractors to be responsible for ensuring the supply chain of potential sub-contractors complies with the legislation and a declaration confirming same shall form a standard term and condition of contract.	Awareness training for Procurement Team and all staff involved in procurement. Contractual obligations contained within the terms and conditions of engagement. Monitored and reported via KPIs	Ongoing
Detection and prevention of fraud	Should staff become suspicious of bidders acting in a potentially fraudulent manner such activity must be reported in writing (together with any supporting evidence) in accordance with the Fraud Procedure. All reporting of anti-	Training and awareness sessions for staff. Regular review for compliance.	Ongoing

	competitive behaviour and fraud will be dealt with in accordance with the Group's Whistleblowing Policy.		
Continuous Improvement	We are developing a pro-active approach by anticipating future procurement needs and identifying and considering alternative delivery options as part of continuous improvement.	Procurement Team attendance and input to project groups, tendering, general advice and supporting alternative delivery models.	Ongoing
Gifts and Hospitality	All staff involved in procurement must comply with the Group's policy on Gifts, Hospitality, Payments and Benefits.	Awareness training for Procurement Team and all staff involved in procurement.	Ongoing
Conflicts of Interest	The Group contributes to the economies of the areas we work in and has commercial and business relationships with many different companies, contractors, suppliers and service providers. We will take appropriate measures to prevent, identify and remedy conflicts of interests arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal and non-discriminatory treatment of all economic operators.	Awareness training for Procurement Team and all staff involved in procurement. Referring to policy and legislation.	Ongoing
Equality and Diversity	We require suppliers to adhere to strict ethical standards and behavior, and in return the Group will also demonstrate the highest level of ethical standards. All procurement will be conducted such that all suppliers with the necessary abilities have a fair and equal opportunity to secure Group business. The Group will be fair, honest and transparent in all dealings with Suppliers and avoid any conduct which is capable of being adversely interpreted. All suppliers will be treated equally and without discrimination. The Procurement Team will review all larger procurements to consider the option of splitting them into smaller lots in order to facilitate greater access to procurements.	Awareness training for Procurement Team and all staff involved in procurement. Contractual obligations contained within the terms and conditions of engagement. Monitored and reported via KPIs	Ongoing

Equal Treatment, Non Discrimination, Transparency and Proportionality	The Procurement Team will act in a transparent and proportionate manner at all times and at all stages of each procurement. In line with legislation, electronic communication will be available for all procurement activity, all procurement documentation will use plain and concise language in order that it is readily understood by all participants, and the Procurement Team will ensure open and public market engagement.		Ongoing
Procurement of Health and Social Care Services	We will procure Health and Social Care services in line with the provisions of Regulation 74 of the Public Contracts (Scotland) Act 2015 and also Section 12 of the Procurement Reform (Scotland) Act 2014		Ongoing

c) Process & Systems, P2P, Benefits Tracking, E-Procurement			
This element of the Strategy is essential if the Group is to achieve efficiencies in our procurement process. If we do not have detailed processes and effective systems, which are adhered to, savings achieved through the tender process will not materialise. We aim to look for new and innovative ways to work and develop and train our staff to utilise technology in order to achieve this.			
Identified Factor	**Future Priorities**	**How**	**Target Date**
Supplier On-boarding	To ensure all purchasing is transparent and in line with the Group's Financial Codes, the Purchase to Pay team has introduced a No Purchase Order No Payment process. Suppliers will be given information on how to do business with the Group when they are on boarded. In future all suppliers will be expected to complete on boarding documentation electronically to improve efficiency, minimise risk of fraud and improve accuracy of information on the database.	Contractual obligations contained within the terms and conditions of engagement. Monitored and reported via KPIs.	Ongoing
Purchase to Pay (P2P)	We have implemented a number of system improvements to help suppliers to be paid on time and accurately.	Monitoring & reporting	Ongoing
Purchase Cards (PCard)	PCard's have been fully launched and rolled out across the Group. The PCard system provides increased visibility and transparency of spend across the Group. This allows for greater reporting procedures and faster, more efficient payments for suppliers.	Group policy and procedural documentation.	Ongoing
Supplier Management	We have implemented a streamlined, strategic approach and facilitating a standardised approach to supplier management across the Group to develop and improve relationships and payment targets for suppliers. We will monitor the supplier on boarding process to ensure that suppliers are processed efficiently.	To be monitored and KPIs to be reordered.	Ongoing
E-Auctions	E-auctions are a simple, transparent procurement method where suppliers compete online. We consider the use of E-auctions at strategy stage for some contracts which we deem suitable an where there are tangible benefits in doing so. We will evaluate the use of e-auctions for contracts and consideration should be given to appropriateness and benefits that may be achieved if used to tender other contracts.	Route to market to be strategically evaluated by the Procurement professional.	Ongoing
Benefits Tracking Database	From November 2015 all procurement transactions processed by the Procurement Team are being run through our file management system VisualFiles.	Awareness training for Procurement Team and all staff involved in	Ongoing

	Use of VisualFiles will allow an electronic contracts register to be produced and will allow our Benefit Tracker to be updated automatically ensuring that we deliver measurable year on year efficiencies and savings. The production of the contract register in tandem with the benefits tracker will allow us to view at a glance savings made, contract renewals and existing contracts therefore increasing transparency and efficiency.	procurement. To be monitored.	

Appendix 1 Outline Procurement Programme
Sample of future Contractual Opportunities

The table below shows examples of potential procurement opportunities which may become available over the next 24 months, once confirmed, all available contractual opportunities will be advertised on Public Contract Scotland procurement portal.

Group Strategy Delivery	Procurement	Approx. Value	Route	When
Delivering Exceptional Customer Experience	Decorating Vouchers – Tenants	£200k over 4 years	Subject to procurement plan	Delivery 2020
Developing our Shared Capacity	Human Capital Management – IT Software	£1m over 4 years	Subject to procurement plan	Delivery 2020
Enabling our Ambitions	IT Investment and Upgrades (Care Software Package)	£1m over 4 years	National Framework	Delivery 2020
Delivering Exceptional Customer Experience	Pest Control Services	£200k over 4 Years	Subject to procurement plan	Delivery 2020
Enabling our Ambitions	Loan Security Valuations	£180k over 2 year	Subject to procurement plan	Delivery 2020
Developing our Shared Capacity	Mail Services	£3.5m over 4 years	Subject to procurement plan	Delivery 2020
Developing our Shared Capacity	Group Fleet Solution	£10m over 4 years	Subject to procurement plan	Delivery 2020
Developing our Shared Capacity	Group Trade Materials	£10m over 4 years	Subject to procurement plan	Delivery 2020
Developing our Shared Capacity	Group Fuel Cards	£800k over 3 years	Subject to procurement plan	Delivery 2020
Enabling our Ambitions	Technology Enabled Care	£1.5m over 4 years	National Framework	Delivery 2020
Developing our Shared Capacity	Group Payment Engine Services	£500k over 5 years	National Framework	Delivery 2020
Developing our Shared Capacity	Taxis	£500k over 4 years	Subject to procurement plan	Delivery 2020
Making the Most of our Homes and Assets	Group Wide District Heating Framework	£50m over 5 years	Subject to procurement plan	Delivery 2020
Making the Most of our Homes and Assets	New Build Housing (Dean South)	£22m+ over 3 years	Subject to procurement plan	Delivery 2020
Making the Most of our Homes and Assets	DGHP Capital Investment Programme (various work streams)	£67m over 5 years	Subject to procurement plan	Delivery 2020/21
Making the Most of our Homes and Assets	DGHP Repair & Maintenance (Back up subcontractor services)	£1m over 1 year	Subject to procurement plan	Delivery 2020/21

Developing our Shared Capacity	Mobile Voice and Data	£1.5m over 5 years	Contract Extension Review	Delivery 2020/21
Developing our Shared Capacity	Network Services	£2m over 4 years	Contract Extension Review	Delivery 2020/21
Developing our Shared Capacity	Occupational Health Services	£1.3m over 4 years	Contract Extension Review	Delivery 2020/21
Developing our Shared Capacity	Office Stationery Supplies	£500k over 4 years	Contract Extension Review	Delivery 2020/21
Making the Most of our Homes and Assets	Technical Consultancy Framework Agreement	£20m over 4 years	Contract Extension Review	Delivery 2020/21
Making the Most of our Homes and Assets	Group Wide Grounds Maintenance	£5m over 4 years	Subject to procurement plan	Delivery 2020/21

Contracts delivered in the previous 12 months – Update

The table below shows procurement opportunities, which were delivered in the previous 12 months and are now showing live in the Contracts Register advertised on the Wheatley Group website.

Procurement	Approx. Value	Route	When
Commercial Cleaning Services	£2.5m over 4 years	National Framework - Direct Award	Awarded 2019
Gas Service Auditing	£270k over 4 years	National Framework	Awarded 2019
Group Print & Storage	£5m over 4 years	National Framework	Awarded 2019
Multi Storey Flats Inspections	£1m over 5 years	Wheatley OJEU Procurement	Awarded 2019
New Build Construction Framework	£400+m over 4 years	Wheatley Framework - Open Tender	Awarded 2019
Research Services	£800k over 4 years	National Framework	Awarded 2019
Secure Document Archive & Scanning Services	£300k over 5 years	National Framework	Awarded 2019
Repairs management system	£1.5m over 4 years	National Framework	Awarded 2019
Waste Management	£800k over 4 years	National Framework	Awarded 2019
Research Services	£800k over 4 years	National Framework	Awarded 2019
Water Coolers and Associated Consumables	£150k over 4 years	National Framework	Awarded 2019
Group Utilities (Gas, Electric and Water)	£20m over 4 years	National Framework	Awarded 2019
Group Corporate Cleaning	£1.6m over 4 years	National Framework	Awarded 2019
Hotel Travel Booking System	£700k over 4 years	National Framework	Awarded 2019
Corporate Security	£400k over 4 years	National Framework	Awarded 2019
Mechanical & Electrical Maintenance	£12m over 5 years	National Framework	Awarded 2019
Cathkin View Office Refurb	£300k over 1 year	Wheatley Framework - Open Tender	Awarded 2019
IT Consultancy	£140k over 1 year	National Framework	Awarded 2019
Provision of Insurance	£22m over 4 years	Wheatley Framework - Open Tender	Awarded 2019/20

Contracts not delivered / no longer required

The table below shows procurement opportunities which were cancelled or no longer required by the business, which were previously shown as potential in the procurement programme.

Procurement	Approx. Value	Rationale
Route to market change – Sheriff Officer Services	£500k over 4 years	Was procured as a Lot within the Legal Services Framework to delivery economies of scale.
Agency Services for Care	£1.6m over 4 years	Changed to a service we now deliver in house employed staff
Domestic Furniture Removal and Storage	£2m over 4 years	Subject to procurement plan

Appendix 2 Legislative References - Update

Legislation	Section	Legislative Reference	Strategy Reference
Procurement Reform (Scotland) Act 2014	S.15	To have a Procurement Strategy	Full strategy
Procurement Reform (Scotland) Act 2014	S.15(1)(b)	Annual review of strategy	
The Public Contracts (Scotland) Regulations 2015	Reg. 39	Occasional joint procurement	Page 4, 5, 17
Procurement Reform (Scotland) Act 2014	S.9	Sustainable procurement duty	Pages 21
Procurement Reform (Scotland) Act 2014	S.8	General duties (equality, non-discrimination, transparency and proportionality)	Page 26
Procurement Reform (Scotland) Act 2014			
The Public Contracts (Scotland) Regulations 2015 Procurement Reform (Scotland) Act 2014	Reg. 5 S.3	Thresholds	Page 8, 15
Procurement Reform (Scotland) Act 2014	S.15(5)(a)(i)	Functions and Purpose	Full strategy
Procurement Reform (Scotland) Act 2014	S.15(5)(a)(ii)	Delivering value for money	Page 6, 8, 11
Procurement Reform (Scotland) Act 2014	S.15(5)(b)(ii)	Consulting and engaging with those affected by our procurements	Page 13
Procurement Reform (Scotland) Act 2014	S.15(5)(7)	Living Wage	Page 19
Procurement Reform (Scotland) Act 2014	S.35	Contract Register	Page 19
Procurement Reform (Scotland) Act 2014	S.15(5)(b)(i)	Community Benefits	Page 4, 7, 8, 11, 19
Procurement Reform (Scotland) Act 2014	S.9(1)(a)(ii)	Small-medium sized enterprises	Page 19
Procurement Reform (Scotland) Act 2014	S.11	Supported Businesses	Page 12, 20
Procurement Reform (Scotland) Act 2014	S.15(5)(b)(iv)	Health and Safety	Page 20
Procurement Reform (Scotland) Act 2014	S.15(5)(b)(v)	Fair and Ethical Trading	Page 20
Modern Slavery Act 2015	S.54	Transparency in the supply chain	Page 14, 26
Procurement Reform (Scotland) Act 2014	S.15(5)(c)(i) S.15 (5)(c)(ii)	Provision of food	Page 21
Procurement Reform (Scotland) Act 2014	S.15(5)(d)	Payment terms	Page 21
The Procurement (Scotland) Regulations 2016 Procurement Reform (Scotland) Act 2014	Reg. 8 Reg. 9 S.27	Criminal Convictions/Serious and Organised Crime	Page 23

The Public Contracts (Scotland) Regulations 2015	Reg.58		
The Public Contracts (Scotland) Regulations 2015	Reg.25	Gifts, Hospitality and Conflicts of Interest	Page 25
Procurement Reform (Scotland) Act 2014	S.7	Dynamic Purchasing Systems	Page 27
The Public Contracts (Scotland) Regulations 2015	Reg.36	E-Auctions	Page 27

The following table sets out the sections of this Procurement Strategy, which relate to the requirements set out in the Guidance under the Procurement Reform (Scotland) Act 2014 issued by the Scottish Government on 17 March 2016.

Guidance Requirement	Legislation Reference	Requirement	Strategy Page No.
2.5.1	15(5)(a)(i)	Contribution to carrying out of functions and achievement of purposes	Full Strategy
2.5.2	15(5)(a)(ii)	Ensuring Value for Money	6, 8, 11
2.5.3	15(5)(a)(iii)	Equal Treatment and Non Discrimination	20
2.5.4	15(5)(a)(iii)	Acting in a transparent and proportionate manner	14, 26
2.5.5	15(5)(a)(iii)	Sustainable Procurement Duty	21
2.5.6	15(5)(b)(i)	Community Benefit Requirements	4, 7, 8, 11, 19
2.5.7	15(5)(b)(ii)	Consulting and Engaging	13
2.5.8	15(5)(b)(iii)	Living Wage	19
2.5.9	15(5)(b)(iv)	Health and Safety	20
2.5.10	15(5)(b)(v)	Fairly and Ethically Traded Goods	20
2.5.11	15(5)(c)	Regulated Procurements involving provision of Food	21
2.5.12	15(5)(d)	Payments within 30 day timescales	21

April 2020

Wheatley Group Procurement Policy

Making homes and lives better
wheatley-group.com

We can produce information on request in large print, Braille, tape and on disk. It is also available in other languages. If you need information in any of these formats please contact us on Freephone 0800 479 7979.

如果你向我們提出要求，我們可以爲你提供本資訊的其他語言的版本，或者是盲文或磁帶。如果你需要本資訊的任何一種這些版式的版本，請聯繫我們，電話號碼是 0800 479 7979.

Si vous nous le demandez, nous pouvons vous remettre ces informations en d'autres langues, en braille ou sur cassette. Si vous souhaitez que ces informations vous soient fournies sous l'un de ces formats, contactez-nous en composant le 0800 479 7979.

چنانچه مایل باشید می‌توانید این مطالب را به فارسی یا زبان‌های دیگر و همچنین بریل و یا بر روی نوار کاست دریافت دارید. در صورت نیاز خواهشمندیم با شماره تلفن 0800 479 7979 با ما تماس بگیرید.

ਜੇ ਤੁਸੀਂ ਸਾਨੂੰ ਬੇਨਤੀ ਕਰੋ ਤਾਂ ਅਸੀਂ ਤੁਹਾਨੂੰ ਇਹ ਜਾਣਕਾਰੀ ਹੋਰ ਭਾਸ਼ਾਵਾਂ, ਬ੍ਰੇਲ (ਨੇਤ੍ਰਹੀਣਾਂ ਲਈ ਭਾਸ਼ਾ) ਵਿੱਚ, ਜਾਂ ਟੇਪ ਉਪਰ ਦੇ ਸਕਦੇ ਹਾਂ। ਜੇ ਤੁਹਾਨੂੰ ਇਨ੍ਹਾਂ ਵਿੱਚੋਂ ਕਿਸੇ ਰੂਪ ਵਿੱਚ ਚਾਹੀਦੀ ਹੋਵੇ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਸਾਡੇ ਨਾਲ 0800 479 7979 ਨੰਬਰ ਤੇ ਸੰਪਰਕ ਕਰੋ।

Na Pana/Pani życzenie możemy zapewnić te informacje w innych językach, alfabetem Braille'a lub na kasecie. Jeśli chciał(a)by Pan(i) uzyskać te informacje w którejś z tych form, prosimy skontaktować się z nami pod numerem telefonu 0800 479 7979.

Haddii aad na weydiisato waxaanu warbixintan kugu siin karaa iyadoo ku qoran luuqad kale, farta ay dadka indhaha la' akhriyaan ama cajalad ku duuban. Haddii aad jeclaan lahayd in warbxintan lagugu siiyo mid ka mid ah qaababkaas, fadlan nagala soo xidhiidh telefoonka 0800 479 7979.

По вашей просьбе данная информация может быть предоставлена на других языках, шрифтом Брайля или в аудиозаписи. Если вам требуется информация в одном из этих форматов, позвоните нам по номеру 0800 479 7979.

Name of Policy	Procurement Policy
Responsible Officer	Procurement Manager
Date approved by Wheatley Board	19th February 2020
Date of next formal review	February 2021

The Wheatley Group will provide this policy on request at no cost, in large print, in Braille, on tape or in other non-written format, and in a variety of languages.

Application of this Policy to all Wheatley Group Staff

Mandatory	x
Variation possible	
Framework only	
Local policy required	

HAPPY TO TRANSLATE

Contents

Section 1

Introduction

The Wheatley Group ('The Group') is Scotland's leading housing, care and property management group. We are a dynamic and growing organisation which currently comprises seven Registered Social Landlords, two Care Partners, a repair Division and two commercial subsidiaries. The Group currently spans 18 Local Authority areas across Central Scotland.

Our Group partners are:

- Glasgow Housing Association
- **Dumfries and Galloway Housing Partnership (DGHP)
- Dunedin Canmore Housing Association
- Cube Housing Association
- Loretto Housing Association
- West Lothian Housing Partnership
- Barony Housing Association
- Loretto Care
- YourPlace Property Management
- Lowther Homes
- Wheatley Solutions
- Wheatley Foundation
- *City Building Glasgow

*The shared 50/50 split Joint Venture with Glasgow City Council & Wheatley Group, now confirms City Building Glasgow (CBG) as a Partner Organisation within the Wheatley Group. City Building Glasgow still completes their own Procurement processes for the supply of all goods and services required to undertake their contractual obligations.

This Procurement Policy applies to and binds all employees of the Group and its subsidiaries in any situation where they are involved in a purchasing process. 'Purchasing' includes all procurement activities including leasing and hiring, and may where appropriate include other activities accompanying the life cycle of goods (or service contracts) and the end-of-life disposal of goods which have been procured (whether or not they remain in our ownership). Adherence to the Procurement Policy is both an individual and a corporate responsibility; failure to comply may result in disciplinary action.

The purpose of the Procurement Policy is to set out the general operating principles covering the activities and objectives of Procurement within the Group. The document seeks to explain in broad terms the principles under which Procurement throughout the Group will be undertaken and proactively managed such that the stakeholders' requirements for supplies, works and services are efficiently and effectively sourced at the lowest sustainable 'total' cost whilst delivering best value for money.

The Procurement Team is responsible for managing procurement on behalf of the Group ethically and in compliance with both domestic and EU Legislation. It is responsible for providing guidance and support across the Group and to support staff who procure on behalf of their subsidiary. Should you require any assistance or guidance with any procurement matter please contact procurement@wheatley-group.com.

Wheatley Housing Group / City Building (Glasgow) Joint Working Principles

In April 2017 the Group entered into a joint venture with Glasgow City Council. The Group became the 50/50 joint owner of City Building (Glasgow) which will deliver repairs and general maintenance work within the Group's Registered Social Landlords in the west of Scotland (including Glasgow Housing Association, Cube and Loretto), the Group's commercial housing subsidiary Lowther Homes and its property management company YourPlace.

We are working to develop a collaborative approach to managing procurement across the Group with CBG. This will be developed and agreed in line with the Group's compliance and legislation principles. It will reflect best value and sustainability through the supply chain, determine the most effective route to market, jointly support SMEs, effectively benefiting the customer through the efficient management of Community Benefits and the Wheatley Pledge and ultimately promote excellence in procurement.

Wheatley Housing Group / Dumfries and Galloway Housing Partnership Joint Working Principles

******The Partnership arrangement with Dumfries and Galloway Housing Partnership (which manages more than 10,000 homes across Dumfries and Galloway) and Wheatley Group, now confirms DGHP as a Partner Organisation within the Wheatley Group. DGHP currently undertake their own Procurement processes for the supply of all goods and services required to undertake their contractual obligations. Moving forward during 2020/21 we will merge these obligations into the Group Procurements / Contracts as the Partnership develops.

Section 2

Principles, Aims and Objectives

Procurement activities must comply with all applicable UK and European laws and regulations. In particular all procurement must comply with the EU Directive 2014/24, Public Contracts (Scotland) Regulations 2015, The Procurement (Scotland) Regulations 2016, Procurement Reform (Scotland) Act 2014 and the Housing (Scotland) Act 2001. In addition the Group will comply, where relevant with international laws, agreements and treaties to which the UK Government is a party.

All Procurement activity aims to achieve Best Value for the Group. Best Value includes not only the initial purchase price, but also continuing costs throughout the life cycle of equipment, materials works and services, such as financing and depreciation, maintenance requirements and energy usage. Best value also includes the quality and reliability of the supplies, works or services and the punctuality and reliability of their execution.

The Group will work collaboratively with suppliers wherever possible to create relationships within which the Procurement Team can learn how to make it easier for suppliers to meet stakeholder requirements and to further encourage suppliers to improve their products, prices, quality and service level delivery.

The Group will work with Government bodies and other public sector organisations to utilise collaborative procurement arrangements where they offer value for money. In addition the Group will consider including collaborative arrangements within its contracts to enable other public sector bodies to benefit from its rates, lean methods and scope of work.

All Procurement for supplies, works and services that the Group undertakes and the methods' it uses to procure them, must not infringe existing laws applicable at the time of the procurement, and must conform to the highest ethical, social and environmental standards.

Section 3

Equal Opportunities Statement

We are committed to providing fair and equal treatment for all of our stakeholders and in the way we conduct business by positively promoting equal rights for all. The Group is committed to ensuring that no-one is excluded or discriminated against on the grounds of religion, belief, age, gender, gender reassignment, sexual orientation, marriage or civil partnership, family circumstances, pregnancy and maternity, employment status and/or disability. We positively endeavor to achieve fair outcomes for all. Through our procurement processes we will challenge our suppliers to not only confirm compliance with legislation but to reflect our aspirations for equality and diversity in their working practices.

The Group carries out Equality Impact Assessments on all our procurement activities to ensure that there are no negative equality and diversity implications. We take appropriate action to address inequalities likely to result or resulting from the implementation of the policy and procedures.

Section 4

General Data Protection Regulation (GDPR)

The Group holds a wide range of sensitive information, both of a personal and a commercial nature. We have a duty to protect this information and ensure it is not seen or accessed by people (whether internal or external to the Group) without the legal authority to do so.

The Group's policy position in respect of data protection is reflected in the Group's Data Protection Policy.

In light of the legislative changes under the new General Data Protection Regulation (GDPR) and the Data Protection Act 2018, the Group will undertake an audit of our data protection activities and carry out a Data Privacy Impact Assessment (DPIA) on all activities which involve personal data or the exchange of personal data to help us identify the most effective way to comply with our data protection obligations and meet individuals' expectations of privacy.

The GDPR requires us to undertake DPIAs in circumstances where we:-

- use systematic and extensive profiling with significant effects;
- process special category or criminal offence data on a large scale; or
- systematically monitor publicly accessible places on a large scale.

The Information Commissioner's requires you to undertake a DPIA if we plan to:-

- use systematic and extensive profiling or automated decision-making to make significant decisions about people;
- process special-category data or criminal-offence data on a large scale;
- systematically monitor a publicly accessible place on a large scale;
- use innovative technology in combination with any of the criteria in the European guidelines;
- use profiling, automated decision-making or special category data to help make decisions on someone's access to a service, opportunity or benefit;
- carry out profiling on a large scale;
- process biometric or genetic data in combination with any of the criteria in the European guidelines;
- combine, compare or match data from multiple sources;
- process personal data without providing a privacy notice directly to the individual in combination with any of the criteria in the European guidelines;
- process personal data in a way that involves tracking individuals' online or offline location or behaviour, in combination with any of the criteria in the European guidelines; and
- process children's personal data for profiling or automated decision-making or for marketing purposes, or offer online services directly to them.

Processing personal data that could result in a risk of physical harm in the event of a security breach DPIAs help the Group to identify and reduce the privacy risks of a project. The purpose of a DPIA is to ensure that privacy risks are minimised while allowing the aims of the project to be met wherever possible. The Group also has a duty to be accountable under the GDPR and requires DPIAs to be retained and updated where appropriate for audit and compliance purposes.

It is a standard condition of all our contracts that our suppliers and sub-contractors will comply with all data protection legislation and applicable regulations, including the GDPR, the Data Protection Act 2018 and all guidance and/or Codes of Practice published by the Information Commissioner's Office.

The requirement for DPIA will be considered within all relevant future procurement activity.

Section 5

Ethical, Social and Environmental Responsibility

Fair and Equal Treatment of Suppliers

All Procurement will be conducted such that all suppliers with the necessary abilities have a fair and equal opportunity to secure Group business including maximising support for Small-medium sized enterprises (SMEs). The Group is committed to improving access to our contracts and empowering staff to buy locally for low risk, low value purchases thus contributing to our local communities.

We shall appropriately review and evaluate all larger contracts, considering the geographical location and the option of splitting them into smaller Lots as defined in the Scottish Procurement Construction Policy Note (CPN) 3/2017 publishing guidance on the use of frameworks, which may encourage SME participation. This will not be appropriate in every circumstance and we retain our discretion not to Lot or retain larger value contracts as one Lot, determined by whichever is in the best interests of the Group.

In particular, the Group will promote local economic development and regeneration by actively encouraging fair and open competition across a varied supply base thus making it easier for all suppliers regardless of size to bid for contracts.

Prior to commencing a procurement exercise we may seek to carry out market testing. In order to be open and transparent in our dealings we will only do this by going out to the market using the appropriate PIN on the Public Contract Scotland procurement portal, as applicable to above, below, slice and OJEU compliance. Any improper approaches, whether in the form of inducements or threats from suppliers, must be reported to line managers, even if they are sufficiently ambiguous to allow for an innocent interpretation.

To ensure transparency and equal treatment of all suppliers during the tendering process and in compliance with the formal procurement process, all communication with suppliers will be carried out through the Public Contract Scotland portal and in accordance with arrangements set out in the Procurement Guidance section on WeConnect which staff must follow.

Ethical Standards of Staff

The Group insists on suppliers adhering to strict ethical standards and behaviour, in return the Group will also demonstrate the highest level of ethical standards. The Group will be fair, honest and transparent in all dealings with suppliers and avoid any conduct which is capable of being adversely interpreted.

Persons engaged in any aspect of Procurement on behalf of the Group will not use their authority for personal gain. Adhering to this policy will also help ensure that we comply with the requirements of The Bribery Act 2010, which makes it an offence to:

- Bribe another person (e.g. offer, promise, or give financial or other advantage to induce or reward improper performance of a function);
- Receive bribes from another person (e.g. agreeing to receive or accept a financial or other advantage for improper performance of a function);
- Bribe foreign officials; and
- Fail to prevent bribery.

Social and Environmental Responsibility

Effective procurement will complement our goals for maintaining awareness of sustainability issues amongst staff and customers. We expect our suppliers to meet our standards for sustainability as set out in our Sustainability Strategy.

The Group is committed to compliance with the Health and Safety at Work Act 1974 and all related provisions and we expect all of our suppliers to comply with the legislation and promote good working practices throughout the supply chain.

Gifts and Hospitality

All staff involved in procurement must comply with the Group’s policy on Gifts, Hospitality, Payments and Benefits which sets out guiding principles for employees and Board Members to follow to ensure that we meet legal and regulatory requirements. This serves to protect our integrity and avoid the potential for any perception that our procurement processes can be unduly influenced.

All staff have a duty to act with honesty and integrity and must never accept a gift, favourable treatment or incentive in exchange for acting in a certain way.

Conflicts of Interest

The Group contributes to the economies of the areas we work in and has commercial and business relationships with many different companies, contractors, suppliers and service providers. In order to comply with Regulation 25 Public Contracts (Scotland) Regulations 2015 we are required to take appropriate measures to prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators. All staff must report connections as outlined in the Group’s Gifts, Hospitality, Payments and Benefits Policy to their direct Line Manager and complete the relevant Declaration of Interest form. For the avoidance of doubt this includes any situation where an employee or Board Member has directly, or indirectly a financial, economic or other personal interest which might be perceived to compromise their impartiality and independence in the context of the procurement procedure.

Any Employee or Board Member involved in a decision making process in respect of any matter covered by this policy shall be required to ensure that, to the best of their knowledge, there has been no conflict of interest and the decision making process has been open and transparent. Alternatively, they shall be required to declare a conflict of interest immediately upon becoming aware of such an interest and will be removed from the decision making process.

In order to protect our reputation and demonstrate that we conduct our affairs with openness, honesty and integrity we maintain a Register of Interests. As a matter of good practice, all Board Members and Senior Managers are required to complete a Registration of Interests form annually. All other Employees are required to exercise their discretion and complete such a form if they consider themselves to have a registrable interest. All forms should be passed to the Company Secretary who has the responsibility for maintaining and auditing the register. They can be emailed to anthony.allison@wheatley-group.com.

Such connections will not necessarily prevent the Group trading with the supplier concerned, but in the interests of ensuring the decision making process is open and transparent, such declarations of interest must be made and retained by the Lead Procurement Officer.

Group employees should avoid as far as possible dealings with Group suppliers in their private affairs, particularly if this is likely to put them under some obligation to the supplier. Where such arrangements are unavoidable, it is essential that they are not offered any deal, which could be construed as a reward for actions taken in the course of their employment.

It is the responsibility of Employees and Board Members to manage conflicts of interest that arise between their own personal or business interests and their duties to us, in accordance with the employee and governing body Codes of Conduct. Employees and Board Members give a written undertaking to act in accordance at all times with the Employee or Board Member Code of Conduct, which exemplify good governance and reflect relevant legal and regulatory requirements.

Further information can be found in our Group Whistleblowing Policy.

Criminal Convictions and Serious and Organised Crime

We view criminal conduct of our suppliers very seriously and work closely with Police Scotland with whom we have an Information Sharing Protocol. All suppliers are required, as a standard term of contract to complete a Declaration of Non-Involvement in Serious and Organised Crime.

In compliance with the Procurement Reform (Scotland) Act 2014 and Public Contracts (Scotland) Regulations 2015 we are required to exclude a business from bidding if it, or someone who holds a senior position within it, has been convicted of specific offences as detailed in the 2015 Regulations unless there are exceptional circumstances.

We are also entitled to exclude bidders should they attempt to distort competition. All staff should be aware of the potential for bidders that appear to be acting together in order to fix market prices. Any such arrangement is illegal. Staff may also become aware of potentially fraudulent activity throughout the life of any procurement. Any such suspicions must be reported in writing (together with any supporting evidence) to the Lead Procurement Officer who will investigate and pass to the appropriate department for further investigation if necessary.   All reporting of anti-competitive behaviour and fraud will be dealt with in accordance with the Group's Whistleblowing Policy.

Slavery & Human Trafficking

We are committed to the highest ethical standards of business, and ensuring there is no slavery or human trafficking in any part of our Business or Supply Chain.

We are committed to developing the economies of the areas we work in and build strong relationships with local Suppliers. We operate solely within Scotland and do not have a large global Supply Chain.

The Group is committed to compliance of the Modern Slavery Act 2015 and all related provisions as reflected in the Anti-Fraud Corruption and bribery policy. We expect all of our Suppliers to comply with the legislation and promote good working practices throughout the Supply Chain.

Section 6

Guidance for Business Owners, Procurement & Contract Management

In many occasions, the use of third parties is an extension and necessary part of the business activities undertaken by the Group. Where this is the case, we have in the main, assigned the Director in the business area where the activity is undertaken as the 'owner'.

However, on some occasions, third party arrangements are used by various people in the group and ownership is less obvious. To overcome this we have assigned ownership to the Director in the area of the business that makes greatest use; by spend, of the contract.

Business Owner Help

Following engagement with our Assurance team, a number of risks have been identified in respect of the involvement of Business Owners in the procurement and subsequent management of Group contracts. To mitigate these risks, the Procurement Team has developed brief guidance highlighting the key responsibilities of Business and providing links to relevant documentation in support.

Business Owners must ensure all requirements are sourced in line with the Group's, Standing Orders, Scheme of Financial Delegation and Procurement Policy. This requires awareness relevant approval levels and procurement routes.

Information on these areas can be accessed in the following documentation:

- Group Standing Orders; and
- This Procurement Policy.

This Procurement Policy provides an overview of all key aspects of the procurement process including routes to market and delegated authority.

In addition, Business Owners and client representatives are required to consider wider implications of the goods or services required; primarily in respect of data protection and security. This includes;

- Compliance General Data Protection Regulations (GDPR)
- Data Processing and Data Sharing Agreements
- Data Protection Impact Assessment (DPIA)
- IT Considerations such as Software as a Service

Following contract award, Business Owners are responsible for managing and overseeing successful delivery of the required services throughout the duration of the agreement.

This guidance has been produced to assist Wheatley Group Business Owners in understanding their responsibilities in respect of the successful procurement and management of Group contracts.

Section 7

Business Continuity and Disaster Recovery

As part of continuity management, the Group has identified essential activities. These essential activities have been identified through assessment against the following criteria:

- whether it is a life and limb service;
- the financial impact should the service be disrupted;
- whether it is a legislative requirement; and
- the reputational damage should the service be disrupted.

The loss of a Supplier is identified by the Group as a key risk as the ability to maintain these essential activities may depend on the continuation of suppliers, services and products. Further identified risks for our Supply Chain include loss of premises, loss of ICT, fuel shortage, severe weather, loss of key staff and disruption to critical infrastructure.

If a supplier is unable to provide its contracted service or product to the Group, this may have an impact on the Group's delivery of its own services. Therefore, ensuring that these Suppliers have their own effective business continuity arrangements (details of which must be included within their Service Level Agreement) in place is an important step in helping to ensure that they have considered incidents which could impact their service provision and have put contingencies in place to mitigate any potential disruption. Suppliers should also confirm their plan exercise programme that demonstrates that their plans have been tested and what the results of those tests are. The Group may invite key suppliers to take part in the testing of the Group's own plans, and we may also request to take part in the supplier's exercise of their plans. In addition, suppliers will be asked to confirm what help they may be able to offer the Group in the event of disruption to the Group's business as it relates to the supplier.

Section 8

Route to Market, Payment Approval and Delegated Authority

Route to Market

All Group procurements should be carried out in line with the authority as detailed in the table below. Procurements deemed to be of high business risk political or reputational nature must be reported to ET as a minimum.

Financial Value	Process	No. of Suppliers
Below £25,000	Guidance on 'WeConnect' that must be followed to achieve best value and Guidance to operate with Group Standing Orders Stakeholder Led	3 – 5 Suppliers
£25,000-£50,000	Guidance on 'WeConnect' that must be followed to achieve best value and guidance to operate with Group Standing Orders. Quick Quote process via PCS Quality / Price can be used. Stakeholder Led	3 – 5 Suppliers
£50,000 – below OJEU thresholds (Goods& Services below £189k and Works below £2m)	Guidance on 'WeConnect' that must be followed to achieve best value and guidance to operate with Group Standing Orders. Tender process via PCS Quality / Price Stakeholder Led	As per procurement strategy documentation.
OJEU threshold and above	Tender process via PCS Quality /Price Procurement Team to undertake	As per procurement strategy documentation.
Not applicable	Waiver Approval Form and Guidance documentation. Stakeholder Led and Reported. Procurement Team to be advised.	Single Supplier

In line with the table above, the Procurement Team is responsible for Group procurements of high value, complex, and a politically sensitive nature. However in some instances where it is appropriate, the Procurement Team will also take responsibility for low/medium value contracts, dependent on complexity etc. All other contracted spend is the responsibility of the Budget Holder.

Contracts with a value of less than £50,000 that are of a low complexity in line with Scottish Government Guidance do not require to be publicly advertised. Below this threshold staff will be offered training and support including an introduction to the Group's 'Passport to Procurement' program to use the 'Quick Quote' process via Public Contracts Scotland as good practice to achieve value for money.

The Quick Quote process is operated through the Public Contract Scotland Quick Quote facility and requires a minimum of 3 quotes from suppliers, who are independently invited to quote. Staff should be mindful when completing the Quick Quote process that they should not simply revert to previous suppliers. Furthermore, staff must ensure that the chosen supplier is appropriate and that due diligence has been carried out in terms of financial standing and references and the procurement is carried out in line with Group Standing Orders and guidance relating to spend.

The EU procedures will also apply where the aggregate value of goods or services exceeds the EU thresholds. This can be reached by the Group having requirements with several suppliers for goods or services with similar characteristics which in total exceed the threshold or from the Group having requirements with the same supplier over a period of time which exceed the threshold.

Contracts with a value in excess of £50,000 or where it is considered that advertising would be advantageous in terms of obtaining value for money all contracts shall be advertised on the Public Contracts Scotland Portal. All contracts above the OJEU thresholds shall be advertised in accordance with the OJEU procedures utilizing the Public Contract Scotland portal.

The OJEU Thresholds (current from January 2020):

Supplies:	£189,330
Services:	£189,330
Slice:	£2m to EU threshold (works)
Works:	£4,733,252

Slice is the new regime (below EU Regime) for Regulated Contracts for Works as legislated under the Procurement Reform (Scotland) Act 2014 and contracts of this value & nature must be advertised on Public Contracts Scotland using a contract notice or PIN and in order to comply with S.23 of the Act.

Procurements for any value can be undertaken by the Waiver process. These types of procurements are for goods, services & works where a contract is awarded to a single supplier which is deemed to be in the 'Best interests of the Group' and the Waiver Approval Form sets out the full background and justification to support the approval process, including any associated risks.

Payment Approval

Payments to suppliers will be made in accordance with the terms of the particular contract. Our standard payment terms are within 30 days of receipt of a completed and valid invoice. Staff should note that payment terms will vary depending on the commodity being procured and in particular construction contracts must include for the new legislation as set out in the Scottish Procurement Construction Policy Note (CPN) 3/2017. In order to ensure payments throughout the supply chain are made in accordance with the 2015 Regulations, contractual obligations contained within the terms and conditions of engagement will be monitored and reported via KPIs.

Statutory Reporting

In order to comply with S.18 Procurement Reform (Scotland) Act 2014, the Group will publish an annual report concerning the Group's regulated Procurement activities of the previous financial year. The Group shall notify the Scottish Ministers of the completion of the report and said report shall be published on the Group's website. The Procurement Team shall be responsible for completing the required annual report.

Contract Register

In order to comply with S.35 Procurement Reform (Scotland) Act 2014, the Group will publish our Contracts Register on our website. The Register is a live document and is updated on a regular basis.

Delegated Authority to Procure

All procurement will be undertaken in accordance with the procedures set out within this Procurement Policy and read in conjunction with Group Standing Orders.

Staff may undertake the Group's 'Quick Quote' for procurement once they have completed the Group's 'Passport to Procurement' program. Where staff wish to procure goods, services or works above OJEU threshold, they must refer to the Procurement Team for tendering purposes. With the exception of the Waiver process, the Procurement Team shall be responsible for managing all procurement above OJEU thresholds. Staff should refer to the table above outlining appropriate delegation of responsibility.

Contract Approval

Approval to award contracts for goods, services and works will be in accordance with the Scheme of Financial Delegation and the Procurement Policy.

Collaborative Procurement

The Group shall seek out opportunities to use collaborative contracts established by other organisations where it offers us better value for money than conducting our own procurement and meets our business needs.

As a result of the Groups size and scale we will use our leverage in the market to procure on behalf of other organisations in the housing sectors where value for money can be offered through collaborative procurements. We will use our strength to assist in the development of the Group by identifying opportunities to consolidate suppliers to gain economies of scale and to support transition for new procurement on contract expiry. We will seek to establish and develop Group wide frameworks, in accordance with the Scottish Procurement Construction Policy Note (CPN) 3/2017 guidance on frameworks, where appropriate.

Plans for PCIP and Internal Audit

The Group Assurance function provides an internal appraisal service that reviews internal control systems in place across the Group's operations (e.g. Procurement), including the effectiveness of risk management processes. Internal Audit activity is aligned to the risk profile of the Group, and provides assurance over the design and operating effectiveness of the controls put in place by management to manage known risk. A Procurement Risk Register is in place and is monitored regularly by management to ensure it continues to reflect the current procurement risk profile.

Procurement is a Group Wide function which is subject to periodic internal audit activity. An internal audit review of the Group Procurement function was completed in 2018.

In the interim period, the Assurance function will monitor the implementation of agreed Procurement audit actions and review its planned activity in response to any changes in the Procurement risk profile.

External accreditation is sought on a regular basis via Scotland Excel PCIP external audit.

Section 9

Policy Review

This policy shall be reviewed annually however regular reviews will be considered where, for example, there is a need to respond to new legislation/policy guidance. Reviews will consider legislative, performance standard and good practice changes.

We will publish this policy on our website at www.wheatley-group.com and it is also available on request. Customers may also request a copy of the policy in other formats and community languages.

Section 10

Customer Service

Confidentiality

Confidentiality is not only a basis of trust in business relationships, but also impacts on the protection of the Group's own interests in terms of retaining competitive advantage. It is the responsibility of any member of staff conducting procurement on behalf of the Group to ensure that third party information, which is of a commercially sensitive and confidential nature, is properly safeguarded. This may require that the supplier or agent of the Group signs a confidentiality agreement.

All personal information given by customers and suppliers in relation to this policy will be treated in accordance with data protection legislation.

The Group complies with the Environmental Information (Scotland) Regulations 2004 and acts in compliance with the Freedom of Information (Scotland) Act 2002. This means that we respond to any request for information in accordance with the requirements of these regulations and this legislation. It is a standard condition of all our contracts that suppliers will assist the Group in complying with its obligations in terms of Freedom of Information and the Environmental Information Regulations.

Complaints Policy

Our aim is to get it right first time. However, if you are dissatisfied with this policy, its operation or otherwise wish to raise a complaint the Group has a Complaints Policy. A copy of the complaints policy can be found on the intranet or a copy can be requested by contacting the Wheatley Group on 0800 479 79 79. As with all our policies, a copy can be made available on tape, in Braille, in large print or in translation.

Where a complaint relates to the conduct of procurement under The Public Contracts (Scotland) Regulations 2015 the procedures outlined in the Regulations will be followed. The complaint will also be logged in accordance with the Group's Complaints Policy.

A Single Point of Enquiry (SPoE) has been established at the Scottish Government Procurement Directorate to which suppliers can address concerns about public funded procurement practices. Further information can be found at: http://www.gov.scot/Topics/Government/Procurement/Selling/supplier-enquiries

As set out on the website the supplier is expected to liaise with the contracting authority in the first instance to seek resolution or clarification.

Section 11

Relationship to other policies

This policy should be read in conjunction with the following documents which can be found on the staff intranet:

- Procurement Guidance Page;
- Procurement Strategy;
- Scheme of Financial Delegation;
- Group Standing Orders;
- Gifts, Hospitality, Payments and Benefits Policy;
- Sustainability Policy;
- Whistleblowing Policy;
- Code of Conduct;
- Anti-Fraud Corruption and Bribery Policy; and
- Freedom of Information (Scotland) Act 2002.

Would you like more information?
Freephone 0800 479 7979
Visit: http://www.wheatley-group.com/
Email: procurement@wheatley-group.com

Wheatley Group

Report

To:- **Wheatley Housing Group Board**

By:- **Steven Henderson, Group Director of Finance**

Approved by:- **Martin Armstrong, Group Chief Executive**

Subject:- **Insurance Tender**

Date of meeting:- **19 February 2020**

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1. Purpose

1.1 To seek the Board's approval for the award of the contract for the provision insurance services across the Group.

2. Authorising context

2.1 Approval of material group contracts is one of the matters reserved to the Group Board in the Group Standing Orders. Under the Scheme of Financial Delegation (SoFD), set out in the Group Standing Orders, the Group Board also has a role in approving contracts relating to revenue expenditure over £1m.

3. Risk appetite and assessment

3.1 Our agreed risk appetite in relation to regulatory compliance is averse. Averse is defined as "avoidance of risk and uncertainty is a key organisational objective."

4. Background

4.1 The provision of insurance services represents a combination of mandatory requirements in terms of legislation and a means for the Group to reduce financial risk relating to a potentially unexpected significant expenditure relating to unanticipated events. The material risks relate to:

- property damage to the Group's housing stock;
- combined liability cover (public, employers' and property owners' liability); and
- motor fleet.

4.2 The majority of insurance services contracts for the Group expire on 31 March 2020, with current expenditure on property, combined liability and motor insurance premiums approximately £1.4m per annum. Alongside IT licences, this therefore represents one of our largest overhead costs.

4.3 Insurance arrangements for Dumfries and Galloway Housing Partnership are due to expire on 31 March 2021, and provision has been made in the tender for the inclusion of the DGHP from 1 April 2021 onwards within the new Group arrangements if it is beneficial to do so.

4.4 It is a requirement of our loan agreements that we demonstrate appropriate insurance arrangements are in place in relation to our property portfolio and other key risks.

5. Discussion

5.1 A.J. Gallagher are the appointed insurance broker to the Group and issued the OJEU tender for all of our insurances on our behalf. [redacted]. We led the process of scoring of the bids, which was undertaken using a 60/40 price/quality ratio.

5.2 The insurance portfolio covers a number of different areas of risk for the Group and, in the invitation to tender, we arranged the insured risks into grouped Lots based on the nature of the cover sought. The Lots for which Group Board approval is required, based on the cost of cover over the up-to five year term, are:

- damage to the Group's housing stock;
- combined liability i.e. public, employers and property owners' liability; and
- motor vehicles.

<u>Property Damage</u>

5.3 Property damage cover is currently provided by Zurich Municipal with an excess level of £250k for GHA housing stock and £10k for the other RSLs in the Group and [redacted]. We sought tenders based on the existing excess structure plus options to increase the deductible to allow consideration against historic claims levels to assess if there was a basis to consider the retention of a higher level of risk. The options considered were:

- Option 1 - Existing excess levels;
- Option 2 - GHA with an increased excess of £500k; and
- Option 3 - Dunedin Canmore increased excess of £25k.

5.4 Three compliant responses to the Lot were received with Ocaso Insurance, being identified as the highest scoring bidder, submitting an offer for option 1 of £496k. This compares to the other offers from Zurich for £[redacted] and Aviva for £[redacted]. These prices include 12% Insurance Premium Tax.

5.5 [redacted]

5.6 [redacted]

5.7 [redacted]

5.8 Ocaso would be a new insurer for our group, having grown in recent years in the UK market. AJ Gallagher as our advisor has provided a letter on their view of their standing and credibility as an insurer for a group of our size, included in appendix 2.

5.9 Ocaso has a number of existing UK social housing clients and the references we have sought indicate a positive working relationship and no issues in relation to the claims process.

5.10 [redacted].

5.11 Ocaso itself has a rating of A (Excellent) from specialist insurer rating agency AM Best. The rating report is included appendix 3. Our bank syndicate loan requires us to notify our lenders of any potential new insurer and ensure they have an investment grade credit rating. They have confirmed that they view Ocaso as having an appropriate credit rating to satisfy their requirements.

5.12 In assessing the level of the excess, the premiums quoted for the variations have been compared to the average past cost of claims which, on the higher excess, would be incurred as an uninsured cost. Future claims levels cannot be predicted with certainty, however average claims levels for the last 4 years have been relatively steady and may reasonably be expected to be representative of possible levels in the next five years. The last 4 years' claims history includes the benefit of the improvements made to fire safety in recent years through the work of the CIP, which saw a significant reduction in the number of major fire incidents in the years running up to the last tender.

5.13 Using the actual claims data, and comparing it to the higher excess options, the table below shows that for both the GHA and Dunedin Canmore, the average annual cost of remedial work over the last 4 years has been higher than the potential saving from a higher insurance excess with Ocaso. It is therefore recommended that existing excess structure is maintained.

Excess level	Premium (including Insurance Premium Tax)	Saving in premium	Estimated extra annual cost incurred	Impact
Existing	£496k	-	-	-
GHA increased to £500k	£358k	£138k	£155k	-£17k
DC increased to £25k	£468k	£28k	£76k	-£48k

<u>Combined liability</u>

5.14 Combined liability includes public liability, employer's liability and property owners' liability. Employer's liability cover is a legal requirement and our loan agreements also require us to have suitable levels of insurance for property owners' liability and public liability insurance. QBE are the current provider under an existing arrangement with and excess of £100,000 for GHA and other subsidiaries at £500.

5.15 Two compliant responses were received for the Lot, with QBE scored as the successful bidder on the current excess structure. The premium for 2020/21 is £366k a reduction of **£93k** on the 2019/20 premium.

Motor

5.16 Allianz are the current provider of the policy which covers over 240 vehicles, mainly the environmental fleet and the Dunedin Canmore Property Services vehicles. The premium for 2019/20 is £317k with a £250 excess. Motor vehicle insurance is a legal requirement.

5.17 There were three compliant bidders for the motor fleet Lot, with Zurich being scored as the successful bidder with a premium of £247k and excess of £250, which is **£70k** lower than the 2019/20 premium.

6. Key issues and conclusions

6.1 The recommendations from the procurement process for the material Lots are summarised below, compared to current premium levels.

	Current Group premiums £ (* including rounding)	**Proposed new premiums £**	**Preferred bidder**
Property damage	651k	496k	Ocaso
Combined Liability	459k	367k	QBE
Motor	317k	247k	Zurich
Total	1,426k	1,110k	
Annual saving vs 2019/20 premiums		316k	

6.2 Based on the recommendation, a revenue saving of **£316k** can be achieved. Future premiums will be subject to an inflationary indexation which will apply each year, and premiums may be impacted by claims history over the term of the contract as applies currently in the existing arrangements.

6.3 A summary of the credit ratings of each proposed successful bidder has been provided at Appendix 1.

7. Value for money implications

7.1 The tender outcome demonstrates the purchasing power of our Group and the benefit that this has for our partner organisations in keeping overhead and administration costs low.

8. Impact on financial projections

8.1 The impact on our finances are considered throughout this report.

9. Legal, regulatory and charitable implications

9.1 Failure to award any of the categories within the remit of the insurance portfolio will be a breach of statutory obligations as each has a mandatory element, for example 3rd party, fire & theft insurance within the Motor Insurance category, employers' liability within the combined liability insurance category. It is a requirement of our funding agreements that we demonstrate appropriate insurance arrangements are in place in relation to our property portfolio and other key risks.

10. Partnership implications

10.1 The Dumfries and Galloway Housing Partnership insurance arrangements are due to expire on 31 March 2021 at which point their portfolio will be merged into the Group arrangement if it is financially beneficial to do so.

11. Implementation and deployment

11.1 The new policy arrangements, including handovers from previous providers, will take place in advance of the new cover going live on 1 April.

12. Equalities impact

12.1 There is no equalities impact identified as a result of this report.

13. Recommendations

13.1 The Board is requested to approve the appointment of the following providers for the provision of insurance contracts for a period of three years with an option to extend for a further two years:

1) Ocaso Insurance - Property damage (£250k excess option for GHA, £10k excess for all other RSL subsidiaries and Lowther Homes);
2) QBE - Combined liability (£100k excess for GHA, £500 excess for all other subsidiaries); and
3) Zurich – Motor vehicles (£250 excess).

List of Appendices

Appendix 1 - Credit ratings of proposed successful bidders
Appendix 2 - [redacted]
Appendix 3 - AM Best Rating Report - Ocaso

Appendix 1 – Credit ratings of proposed successful bidders

Insurer Financial Strength Ratings:

Ocaso Insurance
AM Best: A (see full report overleaf)
[No S&P/Moody's/Fitch rating]

QBE
AM Best: A
S&P: A+
Moody's: A1
Fitch: A+

Zurich Municipal (the trading name of Zurich Insurance PLC)
AM Best: A+
S&P: AA- (positive)

Appendix 2

[redacted]

Press Release - JULY 24, 2019

Print This Page

AM Best Affirms Credit Ratings of Ocaso, S.A. Seguros y Reaseguros

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FOR IMMEDIATE RELEASE

LONDON - JULY 24, 2019

AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a+" of Ocaso, S.A. Seguros y Reaseguros (Ocaso) (Spain). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect Ocaso's balance sheet strength, which AM Best categorises as strongest, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Ocaso's balance sheet strength assessment is underpinned by risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), at the strongest level. The assessment factors in Ocaso's excellent liquidity, limited dependence on reinsurance and the absence of financial leverage. A partially offsetting factor is the increased concentration within the investment portfolio towards Italian sovereign debt, which at year-end 2018 accounted for 18.4% (2017: 8.8%) of total investments at fair value.

Ocaso has a track record of solid operating earnings, supported by resilient technical results. Although in recent times returns have moderated slightly as a result of the ongoing impact of a regulatory requirement to strengthen reserves for legacy funeral expense business ("decesos"), the company has achieved a strong consolidated five-year (2014-2018) weighted average combined ratio of 82.9%. Prospective results will be affected by these reserving requirements over the medium term, but are expected to remain strong overall, supported by the company's rigorous underwriting discipline.

Ocaso maintains a well-established competitive position in Spain, where it benefits from a recognised brand and a broad distribution network. The company deploys a highly defensive

Related Companies

For information about each company, including the Best's Credit Reports, group members (where applicable) and news stories, click on the company name. An additional purchase may be required.

AMB#	Company Name
085823	Ocaso, S.A. Seguros y Reaseguros
046565	Ocaso, S.A. Seguros y Reaseguros

strategy in its core decesos segment, in which it has a strong competitive standing with a very stable customer base. Approximately 97% of Ocaso's underwriting revenue was sourced from the domestic market in 2018. Although this high concentration of business in Spain is a potential source of earnings volatility, Ocaso has demonstrated its ability to produce resilient results, even during periods of recession.

This press release relates to Credit Ratings that have been published on AM Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best's Recent Rating Activity web page. For additional information regarding the use and limitations of Credit Rating opinions, please view Understanding Best's Credit Ratings. For information on the proper media use of Best's Credit Ratings and AM Best press releases, please view Guide for Media - Proper Use of Best's Credit Ratings and AM Best Rating Action Press Releases.

AM Best is a global rating agency and information provider with a unique focus on the insurance industry.

Wheatley Group

Report

To:- **Wheatley Housing Group Board**

By:- **Steven Henderson, Group Director of Finance**

Approved by:- **Martin Armstrong, Group Chief Executive**

Subject:- **Financial Performance 2019/20**

Date of Meeting:- **19 February 2020**

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1. Purpose

1.1 The purpose of this paper is to provide an update on the Wheatley Housing Group's financial performance for the year to 31 December 2019.

2. Authorising context

2.1 On-going monitoring of financial performance against agreed targets is one of the responsibilities of the Group Board under the Group Authorise, Manage & Monitor Matrix.

2.2 The 2019/20 budgets for each subsidiary and our joint venture, City Building (Glasgow), have been agreed by their Boards during February and March. The 2019/20 budget effectively mirrors the first year of the business plan financial projections for each entity (with some minor updates) and will allow each Board, as well as the Group Board, to monitor progress during the year against our business plan targets.

3. Risk appetite and assessment

3.1 The Board's agreed risk appetite for business planning and budgeting assumptions is "open". This level of risk tolerance is defined as "prepared to invest for reward and minimise the possibility of financial loss by managing the risks to a tolerable level".

3.2 Delivery of financial results within approved budgetary limits is a key element in delivering our strategy and maintaining the confidence of investors.

4. Discussion

Financial performance to 31 December 2019

4.1 The results for the year to 31 December are summarised below. Dumfries and Galloway Housing Partnership ("DGHP") results will begin to be included from the point it joined the Group and a gain on business combination of an estimated £230m will be recognised in the group financial statements for 2019/20. Overall for the year to date, DGHP is showing a net operating surplus of £4.3m which is £1.4m favourable to budget. After interest and unbudgeted loan break fees of £6.3m, a statutory deficit of £6.9m is reported £4.7m unfavourable to budget. The results are reported on page 13 of Appendix 1.

	Year to Date (October Period 9)		
£m	**Actual**	**Budget**	**Variance**
Turnover	252.3	228.9	23.4
Operating expenditure	(185.6)	(187.0)	1.5
Operating surplus	**66.7**	**41.8**	**24.9**
Operating margin	*26.5%*	*18.3%*	
Net interest payable	(48.2)	(49.2)	1.0
Statutory surplus	**18.5**	**(7.4)**	**25.9**
Net Capital Expenditure	97.8	108.4	10.6

5. Key issues and conclusions

5.1 The Group is reporting a statutory surplus of £18.5m which is £25.9m favourable to budget for the 9 month period ended 31 December 2019. The variance is largely driven by £21.8m of additional grant income recognised in the year to date against what was budgeted. The variance has resulted from the delay in 2018/19 completions at a number of developments including Hinshelwood, Glenacre, Ibroxholm, Bellwatson, Bonhill, Muiryhall and Buckley. Lower than budgeted operating expenditure is contributing a further £1.0m to the overall favourable variance reported.

5.2 A strong letting performance across the RSLs has generated higher net rental income in the year to date in the group of £0.3m. Other Income is £1.3m favourable to budget to date with higher levels of factoring income in YourPlace (albeit offset by additional cost of sales reported through running costs). Care income in Loretto Care is also strong being £0.2m favourable to budget. In total, turnover for the Group of £252.3m is £23.4m favourable to budget.

5.3 Total operating expenditure for the group of £185.6m is £1.5m favourable to budget in the year to date. Favourable variances are reported on the repairs and maintenance, irrecoverable VAT and bad debt, and demolition lines. This is offset by higher than budgeted levels of expenditure on employee costs, driven the creation of the new universal credit team, and ER/VR with the variance on this linked to addressing some of the long term structural issues with our ageing workforce. As discussed previously at Board we have accelerated change in a number of leadership roles as well as a number of housing officer positions, whilst introducing our graduate programme.

5.4 Net capital investment spend of £97.8m is £10.6m lower than budget; the new build programme is reporting lower than budgeted spend of £20.4m with Kennishead, Sighthill, South Gilmerton and Queens Quay all delayed. Lower levels of new build grant income have also been claimed in the current year, following accelerated receipts in 2018/19 and the delays noted above.

5.5 [redacted].

Q3 Forecast

	Q3 Forecast		
£m	**Budget**	**Forecast**	**Variance**
Turnover	355.8	357.0	1.2
Operating expenditure	(255.5)	(256.2)	(0.7)
Operating surplus	**100.3**	**100.8**	**0.5**
Operating margin	*28.2%*	*28.2%*	
Net interest payable	(66.1)	(65.9)	0.2
Statutory surplus	**34.1**	**34.8**	**0.7**
Net Capital Expenditure	133.5	121.8	11.7

5.6 The full year forecast for the group operating surplus is £100.8m, £0.5m higher than budgeted. The variance is largely driven by higher net rental income in the RSLs with earlier new build completions in GHA at Gallowgate and at Dixon Terrace in West Lothian Housing Partnership. YourPlace buildings insurance income levels are also favourable to budget albeit offset by higher cost of sales reported in operating expenditure. Repairs costs are forecast to be £1.0m lower with lower spend across the cyclical programme most notably in GHA. Additional costs are forecast in ERVR spend to help address some of the long term structural issues and accelerate change in a number of leadership roles and frontline positions, whilst introducing our graduate programme.

5.7 Net capital investment is expected to be £11.7m lower than budgeted with £8.6m of lower grant income forecast to be received in the year with accelerated 2018/19 claims and current year delays at a number of sites impacting the value that can be claimed. New build capital expenditure is expected to be £16.8m lower also with the Sighthill development not expected to commence until Q3 and variances reported on Kennishead, South Gilmerton and Queens Quay expected to roll forward into 2020/21.

RSL Borrower Group Covenants

5.8 We are required to submit the management accounts of the RSL Borrower Group to our funders after each quarter end. All loan covenants with respect to the RSL Borrower Group were met as at 31 December 2019.

6. Value for money implications

6.1 Delivery of our cost efficiency targets is a key element of continuing to demonstrate value for money. The results for the year to date show we are on track to achieve our targets for the year.

7. Impact on financial projections

7.1 The results for the year have had a positive impact, generating a surplus at 31 December of £18.5m, favourable to budget by £25.9m.

8. Legal, regulatory and charitable implications

8.1 No implications.

9. Equalities impact

9.1 Not applicable.

10. Recommendation

10.1 The Board is requested to note the financial performance for the Group to 31 December 2019.

List of Appendices

Appendix 1: Wheatley Group Financial Report to 31 December 2019

Appendix 1: Wheatley Group Financial Report To 31 December 2019 (Period 9)

•Classified as Internal

1a) Wheatley Group – Year to Date P9 (31 December 2019)

YTD (£k)	Year to 31 December 2019			Full Year Budget £'000
	Actual £'000	Budget £'000	Variance £'000	
INCOME				
Net Rental Income	184,766	184,486	280	246,299
Grant income	38,296	16,490	21,806	60,629
Other Income	29,217	27,882	1,335	48,875
Total Income	**252,279**	**228,858**	**23,421**	**355,803**
EXPENDITURE				
Employee Costs	59,994	59,993	(1)	78,001
ER/VR	1,876	1,035	(841)	1,227
Running Costs	30,200	29,560	(640)	38,130
Repairs & Maintenance	28,254	30,214	1,960	38,700
Irrecoverable VAT & bad debts	7,037	7,911	874	11,013
Depreciation	57,951	57,951	-	76,956
Demolition Programme	240	372	132	496
Total Expenditure	**185,551**	**187,035**	**1,484**	**252,308**
NET OPERATING SURPLUS	**66,728**	**41,823**	**24,905**	**103,495**
Gain/(loss) on sale of fixed assets	23	-	23	-
Net interest payable	(48,236)	(49,229)	993	(66,146)
STATUTORY SURPLUS/(DEFICIT)	**18,515**	**(7,406)**	**25,921**	**37,348**

INVESTMENT				
Total Capital Investment Income	20,147	33,310	(13,163)	43,025
Core Investment Programme	44,758	47,337	2,579	64,717
New Build Programme	69,484	89,871	20,387	107,317
Other fixed assets	3,697	4,508	811	4,527
Total Capital Investment Expenditure	**117,939**	**141,716**	**23,777**	**176,561**
NET CAPITAL INVESTMENT SPEND	**(97,792)**	**(108,406)**	**10,614**	**(133,536)**

The Wheatley Housing Group operating surplus for the 9 months ended 31 December 2019 was £66.7m, £24.9m favourable to budget. At the statutory surplus level, a surplus of £18.5m is reported showing a favourable variance of £25.9m. The consolidated results do not include DGHP which joined the group on 12 December. A separate section is shown on p13 for DGHP on a standalone basis.

Total income is £23.4m higher than budgeted:

- Net rental income is £280k favourable to budget with strong letting performance across the RSLs and early completion of social rent properties at Gallowgate (GHA), Dixon terrace (WLHP), and at DC's North Berwick and Greendykes developments. This has been partly offset by lower levels of rental income in Lowther Homes following the later than budgeted completion of MMR new build units at Bellwatson, Ibroxholm (both GHA) and Ruchill (Cube).
- Grant income recognised on the completion of new build and capital projects is £21,806k higher than budget with a number of new build units completing in 2019/20 which were planned to complete in the prior year. Units at Hinshelwood, Glenacre, Ibroxholm and Bellwatson in GHA, Bonhill in Cube and Muiryhall and Buckley in Loretto Housing were all assumed to complete in 2018/19 but slipped to 2019/20 resulting in the associated grant income being recognised this year. The early completions at Gallowgate in GHA, Dixon Terrace in WLHP and DC's North Berwick and Greendykes developments have also impacted but the impact of this will reverse later in the year.
- Other income is £1,335k favourable to budget linked to higher levels of repairs and factoring income in YourPlace. There is an equal and opposite increase in cost of sales, reported through the running cost line.

Total expenditure is £1.5m favourable to budget:

- Employee costs are in line with budget across the group. Post creations in the year (e.g. for the new universal credit team) as well as long term sickness and maternity cover have resulted in higher employee costs, offset by lower staff costs in Care.
- ER/VR costs are reporting an adverse variance of £841k to date. As part of addressing some of the long term structural issues with our ageing workforce discussed previously at the Board we have accelerated change in a number of leadership roles as well as a number of housing officer positions, whilst introducing our graduate programme.
- Running costs are £640k adverse to budget mainly driven by additional costs of sales in YourPlace matched by higher income levels generated. Excluding costs of sae, underlying running costs are £449k favourable.
- Repairs expenditure is £1,960k favourable to budget in the year to date with lower levels of spend reported across most of the RSLs. This gap is expected to close as we move into the winter period.

Net Capital Investment is £10,614k lower than budgeted. Expenditure of £117.9m is reporting a favourable variance of £23.8m. The new build programme accounts for most of the variance (20.4m). Key movements are noted below:

- GHA: spend on the Kennishead and Sighthill developments continue to report large variances to date. Kennishead was impacted by planning delays and statutory consents but is now on site and progressing well. Sighthill was due to commence in April but started in November following delays.
- WLHP: the variance is due to the timing and value of certificates for the Almondvale site where the order of works by the contractor has changed against what was assumed in the budget; this gap is expected to narrow as the site progresses.
- DC: South Gilmerton is not yet on site following delays by the contractor in finalising the acquisition.

Investment Income of £20.1m has been received in the year and relates to cash grant received in the year to date. The variance to budget of £13.2m is linked to the lower levels of spend incurred, as noted above.

Wheatley Group Financial Report
To 31 December 2019 (Period 9)

RSL Borrower Group

2a) RSL Borrower Group – Year to 31 December 2019

YTD (£k)	ACTUAL £'000	BUDGET £'000	VARIANCE £'000	Full Year Budget £'000
INCOME				
Gross Rental Income	176,165	176,032	133	234,914
Void Losses	(1,291)	(1,724)	433	(2,336)
Net Rental Income	174,874	174,308	566	232,578
Grant income	38,296	16,490	21,806	60,629
Other Income	11,334	11,315	19	16,819
Total Income	**224,504**	**202,113**	**22,391**	**310,026**
EXPENDITURE				
Employee Costs	48,316	48,169	(147)	64,223
ER/VR	1,819	1,035	(784)	1,105
Running Costs	19,056	19,348	292	27,279
Repairs & Maintenance	26,486	28,397	1,911	36,277
Irrecoverable VAT & bad debts	7,142	7,808	666	11,013
Depreciation	57,951	57,951	-	77,085
Demolition Programme	240	372	132	496
Total Expenditure	**161,010**	**163,080**	**2,070**	**217,478**
NET OPERATING SURPLUS	**63,494**	**39,033**	**24,461**	**92,548**
Gain/(loss) on sale of fixed assets	-	-	-	-
Net interest payable	(46,096)	(47,055)	959	(63,241)
STATUTORY SURPLUS/(DEFICIT)	**17,398**	**(8,022)**	**25,420**	**29,307**

INVESTMENT				
Total Capital Investment Income	20,147	33,310	(13,163)	43,008
Core Investment Programme	44,604	47,101	2,497	64,403
New Build Programme	69,484	89,871	20,387	107,317
Other fixed assets	3,697	4,508	811	4,527
Total Capital Investment Expenditure	117,785	141,480	23,695	176,247
NET CAPITAL INVESTMENT SPEND	**(97,638)**	**(108,170)**	**10,532**	**(133,239)**

The RSL Borrower Group operating surplus at the end of period 9 was £63.5m, £24.5m favourable to budget. At the statutory surplus level, a favourable variance of £25.4m is reported, resulting in a surplus of £17.4m for the year to date.

Total income is £22.4m higher than budget:

- Net rental income is £566k favourable to budget across the RSLs. We continue to report a strong void performance with void losses £433k favourable to budget and representing 0.73% of rental income versus the budget of 0.98%. Average rents on new build properties is higher also.
- Grant income recognised on the completion of new build and capital projects is £21,806k higher than budget with a number of new build units completed later than budgeted including units at Hinshelwood, Glenacre and Bellwatson in GHA, Bonhill and Dumbain/Carrochan in Cube and Muiryhall in Loretto which were all assumed to complete in 2018/19. In Dunedin Canmore, earlier than budgeted completions at the Ravelrig Road and North Berwick developments has also impacted favourably to date as well as earlier than budgeted completions in GHA at their Gallowgate site and in West Lothian at their Dixon Terrace social rent development.

Total expenditure is £2.1m favourable to budget. All operating cost lines are reporting lower than budgeted spend in the year to date with the exception of employee and ERVR costs.

- Unfavourable variances of £147k and £784k are reported on the employee cost line and the ER/VR lines respectively. These variances are linked to the creation of new posts in the year (e.g. the new universal credit team) as well as maternity and long term sickness cover across the business. Staff are signed up for ER/VR (and this their costs accrued to date) but the timing of this is weighted towards the second half of the year. As part of addressing some of the long term structural issues with our ageing workforce discussed previously at the Board we have accelerated change in a number of leadership roles as well as a number of housing officer positions, whilst introducing our graduate programme.
- Repairs and maintenance expenditure is running £1.9m lower than budget to date. This is primarily driven by GHA (£1,702k favourable), with lower costs incurred to date on reactive and cyclical repairs. Cube, WLHP and LHA are also favourable to budget offset by DC (£58k adverse) and Barony (£24k) with higher reactive repair spend to date.
- Demolition costs are £132k favourable in the year to date, largely relating to buy backs at Gallowgate prior to demolition. We expect £100k of the contract spend for this to slip into 2020/21.

Interest payable is £959k lower than budgeted following the lower than expected level of Group debt at the end of last financial year and lower levels of current year borrowings.

Net Capital Investment is 10,532k lower than budgeted. Expenditure of £117.8m is reporting a variance of £23.7m which arises largely with respect to the new build programme. The £13.2m investment income variance has arisen as a result of the timing of new build grant claims.

2b) GHA – Year to date

	Year To December 2019 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INCOME				
Rental Income	£132,427	£132,230	£197	£176,326
Void Losses	(£859)	(£919)	£60	(£1,225)
Net Rental Income	**£131,568**	**£131,311**	**£257**	**£175,101**
Other Income	£5,293	£5,238	£55	£7,056
Grant Income	£19,097	£4,176	£14,921	£26,903
Total Income	**£155,958**	**£140,725**	**£15,233**	**£209,060**
EXPENDITURE				
Employee Costs	£34,524	£34,365	(£159)	£46,201
ER / VR	£1,807	£1,025	(£782)	£1,025
Running Costs	£13,219	£13,521	£302	£18,030
Revenue Repairs and Maintenance	£19,784	£21,486	£1,702	£26,901
Irrecoverable VAT and bad debts	£6,812	£7,033	£221	£9,978
Depreciation	£42,970	£42,970	£0	£57,293
Demolition and Tenants Compensation	£240	£372	£132	£496
TOTAL EXPENDITURE	**£119,356**	**£120,771**	**£1,415**	**£159,924**
NET OPERATING SURPLUS / (DEFICIT)	**£36,602**	**£19,953**	**£16,649**	**£49,136**
Net operating margin	23.5%	14.2%	9.3%	
Interest payable & similar charges	(£34,601)	(£35,481)	£880	(£48,209)
STATUTORY SURPLUS / (DEFICIT)	**£2,001**	**(£15,528)**	**£17,528**	**£926**

INVESTMENT	Year To December 2019 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
Total Capital Investment Income	**£11,717**	**£13,009**	**(£1,292)**	**£15,200**
Total Expenditure on Core Programme	£33,850	£37,247	£3,397	£50,773
New Build & Other Investment Expenditure	£36,948	£46,490	£9,542	£53,554
Other Capital Expenditure	£3,214	£4,052	£838	£3,619
TOTAL CAPITAL EXPENDITURE	**£74,012**	**£87,789**	**£13,777**	**£107,945**
NET CAPITAL EXPENDITURE	**£62,295**	**£74,780**	**£12,485**	**£92,745**

Key highlights year to date:

- A net operating surplus of £36.6m is £16.6m favourable to budget. The statutory surplus of £2.0m is £17.5m favourable to budget.
- Net rental income is £257k higher than budget with a strong void loss performance (0.65% of rental income), earlier than budgeted handover of homes at the Gallowgate new build development as well as higher than budgeted rental income on units completed in 2018/19, all contribute to the favourable variance.
- Grant income of £19.1m has been recognised following the completion of social rent units at Glenacre (26), Hinshelwood (113) and Gallowgate (113) and mid market units at Bellwatson (52) and Ibroxholm (41). This is £14.9m higher than budget with Glenacre, Hinshelwood and Bellwatson assumed to complete in 2018/19 and earlier than budgeted handovers at Gallowgate recognised to date.
- Total employee costs are £159k adverse to budget with the creation of the new universal credit team and maternity cover costs in GHA driving the variance on the direct employee cost line. The budget includes an in-year savings challenge profiled evenly through the year, however, a number of staff taking up ER/VR have leave dates phased in Q4.
- ERVR costs are £782k higher than budget. As part of addressing some of the long term structural issues with our ageing workforce, we have accelerated change in a number of leadership roles as well as a number of housing officer positions, whilst introducing our graduate programme.
- Total running costs are £302k favourable to budget with lower levels of spend to date on the Helping Hand Fund, Tenancy Sustainment and running costs recharged from Wheatley Solutions. We expect the gap on the Helping Hand Fund to close by the end of the year. The Tenancy Sustainment initiative is managed by Loretto; all outcomes are currently being met but at lower than budgeted costs.
- Repairs spend is £1,702k favourable budget with both reactive and cyclical repairs tracking lower to budget .
- Core Programme spend is £3.4m lower than budget with investment work continuing to meet the criteria for the VAT shelter.
- New build spend is reporting an £9.5m variance at the end of Q3 with Kennishead and Sighthill continuing to drive the YTD variance. As previously reported, Sighthill (£5.4m variance to date) is now on site with the start delayed from April to November 2019. The development at Kennishead started later than originally budgeted which led to a £2.4m variance earlier this financial year. The contractor is now on site and this development is progressing well.
- Investment income of £11.7m relates to grant received in the financial year. The gap of £1.3m against budget has arisen because of the new build delays discussed above; grant can only be claimed when the spend has been incurred.

2c) Cube – Year to date

	Year to 31 December 2019 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INCOME				
Rental Income	13,775	13,888	(113)	18,543
Void Losses	(137)	(297)	160	(431)
Net Rental Income	13,638	13,591	47	18,112
Grant Income	5,693	1,160	4,533	5,266
Other Income	450	439	11	674
TOTAL INCOME	**19,781**	**15,190**	**4,591**	**24,052**
EXPENDITURE				
Employee Costs - Direct	2,662	2,628	(34)	3,505
Employee Costs - Group Services	661	668	7	891
ER / VR	17	0	(17)	0
Direct Running Costs	1,312	1,291	(21)	1,798
Running Costs - Group Services	387	391	4	522
Revenue Repairs and Maintenance	2,303	2,454	151	3,395
Bad debt costs	76	380	304	506
Depreciation	4,954	4,954	-	6,641
TOTAL EXPENDITURE	**12,372**	**12,766**	**394**	**17,258**
NET OPERATING SURPLUS / (DEFICIT)	**7,409**	**2,424**	**4,985**	**6,794**
Net operating margin	*37.5%*	*16.0%*	*21.5%*	*28.2%*
RTB Income	-	-	-	-
Net Interest payable & similar charges	(3,547)	(3,613)	66	(4,764)
STATUTORY SURPLUS / (DEFICIT)	**3,862**	**(1,189)**	**5,051**	**2,030**
INVESTMENT				
TOTAL CAPITAL INVESTMENT INCOME	**2,592**	**7,053**	**(4,461)**	**9,095**
Total Expenditure on Core Programme	3,804	3,900	96	5,997
New Build & other investment expenditure	7,847	10,285	2,438	13,515
Other Capital expenditure	173	173	-	216
TOTAL CAPITAL EXPENDITURE	**11,824**	**14,358**	**2,534**	**19,728**
NET CAPITAL EXPENDITURE	**9,232**	**7,305**	**(1,927)**	**10,633**

Key highlights year to date:

- Operating surplus of £7,409k is £4,985k favourable to budget. Statutory surplus of £3,862k is £5,051k favourable to budget.
- Total income is £4,591k higher than budget, and this is primarily due to completion of 44 new build units at Bonhill PS and 35 at Dumbain, noting that the budget assumed all of these units would complete in March 19. Rental Income of £13,775k YTD is £113k unfavourable to budget mainly due to delays in the completion of new build units at the Bonhill PS, Dumbain and Carrochan sites. The lost rental income is partially offset by compensation of £32k received from the contractor of the Bonhill PS site recognised in "other income"
- Employee costs are £34k unfavourable to budget due to increased overtime costs relating to the delivery of environmental services to new build properties. Changes to the delivery of the environmental service across the Group have been agreed and are being implemented.
- Direct running costs are £21k unfavourable to budget and includes the additional running costs in relation to the district heating scheme and Think Yes spend.
- Group services charges of £1,048k represents Cube's share of Wheatley Solutions staff and employees.
- Revenue repairs and maintenance expenditure is £151k favourable to budget, due to an underspend on cyclical maintenance spend. The cyclical underspend is offsetting an overspend of £43k on reactive repairs.
- Bad debts are £304k favourable to budget. A prudent approach was taken when setting the budget due to the anticipated impact of Universal Credit.
- Interest is paid on £89.7m of loans due to Wheatley Funding Ltd 1 and in addition loan fees are included here. Development interest will be capitalised in P12.
- Net capital expenditure of £9,232k is £1,927k higher than the budget of £7,305k.
- Investment works expenditure of £3,804k mainly relates to environmental works, kitchen replacements and CCTV upgrades.
- Lower capital investment income is reported due to the delay in the Queens Quay site starting and no transactions against the provision for units completing in 2021. At the time of approving the business plan, this provision had not been allocated against specific sites..
- Lower new build expenditure is reported for the above reasons, noting that the underspend is reduced by higher spend on schemes that were already on site at 1 April of this financial year.
- Other capital expenditure of £173k relates to Cube's share of group wide IT investment.

2d) West Lothian Housing Partnership – Year to date

	Year to 31 December 2019			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INCOME				
Rental Income	1,576	1,488	88	2,016
Void Losses	0	(24)	24	(31)
Net Rental Income	**1,576**	**1,464**	**112**	**1,985**
Other Income	1	131	(130)	191
HAG Recognised in the Year	3,710	1,302	2,408	7,246
TOTAL INCOME	**5,287**	**2,897**	**2,390**	**9,422**
EXPENDITURE				
Employee Costs - Direct	246	249	3	333
Employee Costs - Group Services	26	26	0	35
Direct Running Costs	145	148	3	196
Running Costs - Group Services	15	15	0	20
Revenue Repairs and Maintenance	193	238	45	332
Bad Debts	11	26	15	35
Depreciation	855	855	-	1,140
TOTAL EXPENDITURE	**1,491**	**1,558**	**67**	**2,091**
NET OPERATING SURPLUS / (DEFICIT)	**3,796**	**1,339**	**2,457**	**7,331**
Net Operating Margin	*72%*	*46%*	*26%*	*78%*
Interest receivable	1	0	0	-
Interest payable	(639)	(779)	140	(777)
STATUTORY SURPLUS / (DEFICIT)	**3,158**	**561**	**2,597**	**6,554**

	Year to 31 December 2019			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INVESTMENT				
Total Capital Investment Income	**3,388**	**4,020**	**(632)**	**5,883**
Total Expenditure on Core Programme	252	236	(16)	280
New Build & Other Investment	8,324	9,829	1,505	12,405
Other Capital Expenditure	70	0	(70)	22
TOTAL CAPITAL EXPENDITURE	**8,645**	**10,065**	**1,419**	**12,707**
NET CAPITAL EXPENDITURE	**5,257**	**6,045**	**788**	**6,824**

WEST LOTHIAN Housing Partnership

Key highlights year to date:

- Statutory surplus of £3,158k is £2,597k favourable to budget. The variance is largely due to the early completion of 53 units at Dixon Terrace which has allowed us to recognise £3.7m in HAG income. The units were budgeted to complete in period 12.
- Total income of £5,287k is £2,390k higher than budgeted. Letting performance remains strong. Gross rental income is £88k favourable to budget due to the early completion of units at Dixon Terrace. Void losses are £24k favourable to budget. The strong letting performance and additional HAG income at Dixon Terrace has led to a favourable variance against budget.
- Other income is £130k adverse to budget due to the later than budgeted completion of MMR units at Jarvey Street and the lower lease income charged to Lowther Homes. The year to date budget for grant income of £1,302k also relates to Jarvey Street.
- Total expenditure is £1,491k, £67k lower than budget.
- Revenue repairs and maintenance expenditure is £45k favourable to budget with responsive repairs spend tracking lower than budget.
- The bad debts are £15k favourable to budget. The budget was set prudently following the roll out of universal credit.
- Group services charges for staff and running costs of £41k represent West Lothian's share of Wheatley Solutions' staff and service costs.
- Gross interest payable of £639k represents interest due on the £18.75m of loans due to Wheatley Funding Ltd 1.
- Core investment expenditure of £252k relates to the bathroom, boiler and smoke alarm replacement programmes. Small levels of medical adaptation, capitalised void costs and capitalised repairs spend has also been incurred.
- New Build expenditure of £8,324k is reported at the end of period 9 with the variance of £1,505k largely driven by the Almondvale and Dixon Terrace developments. Almondvale is now on site and progressing satisfactorily, spend is £1,843k behind budget following a change in the order of works by the contractor, this gap is expected to close in the coming months. Dixon Terrace is progressing well, evidenced by the early completion of 53 units in the last 6 months. It is expected all units here will be completed ahead of schedule and total spend will be on track with budget overall.

2e) Loretto Housing – Year to date

Loretto Housing

	Year to 31 December 2019 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INCOME				
Rental Income	5,879	5,895	(16)	7,876
Void Losses	(85)	(186)	101	(248)
Net Rental Income	**5,794**	**5,709**	**85**	**7,628**
Grant Income	5,232	2,550	2,682	2,578
Other Income	1,151	1,191	(40)	1,588
TOTAL INCOME	**12,177**	**9,450**	**2,727**	**11,794**
EXPENDITURE				
Employee Costs - Direct	1,764	1,820	56	2,426
Employee Costs - Group Services	200	203	3	270
ER / VR	41	-	(41)	-
Direct Running Costs	1,299	1,235	(64)	1,638
Running Costs - Group Services	119	119	-	158
Revenue Repairs and Maintenance	971	1,044	73	1,344
Bad debts	146	154	8	206
Depreciation	2,579	2,579	-	3,465
TOTAL EXPENDITURE	**7,119**	**7,154**	**35**	**9,507**
NET OPERATING SURPLUS	**5,058**	**2,296**	**2,762**	**2,287**
Net operating margin	*41.5%*	*24.3%*	*17.2%*	*19.4%*
RTB Income	-	-	-	-
Net Interest payable & similar charges	(1,352)	(1,321)	(31)	(1,738)
STATUTORY (DEFICIT)/SURPLUS	**3,706**	**975**	**2,731**	**549**

INVESTMENT				
TOTAL CAPITAL INVESTMENT INCOME	**70**	**2,260**	**(2,190)**	**3,015**
Total Expenditure on Core Programme	996	1,046	50	1,907
Investment Fees		0	0	-
New Build & other investment expenditure	2,797	3,754	957	4,830
Other Capital	67	140	73	161
TOTAL CAPITAL EXPENDITURE	**3,860**	**4,940**	**1,080**	**6,898**
NET CAPITAL EXPENDITURE	**3,790**	**2,680**	**(1,110)**	**3,883**

Key highlights year to date:

- Operating surplus of £5,058k is £2,762k favourable to budget. Statutory surplus of £3,706k is £2,731k favourable to budget.
- Total income of £12,177k is £2,727k higher than budget. This is mainly due to the release of grant income for new build units completed at Muiryhall St as the budget assumed that all these units would complete in March 19.
- Employee costs report a favourable variance of £56k, most of which relates to TSS, with staff numbers slightly lower than budgeted due to vacancies. Note that overall the TSS service reports a nil surplus/deficit, excluding Loretto HA's share of TSS costs.
- Direct running costs are £64k unfavourable to budget and this results from higher property costs in the year with council tax costs on void Duke Street properties impacting. Please
- Group services charges of £319k represents Loretto's share of Wheatley House staff and employees.
- Revenue repairs and maintenance expenditure is £73k favourable to budget due to the timing of cyclical and reactive repairs spend.
- Bad debts are £8k favourable to budget. A prudent approach was taken when setting the budget due to the anticipated impact of Universal Credit.
- Interest is paid on £33.8m of loans due to Wheatley Funding Ltd 1 and in addition loan fees are included here. Development interest will be capitalised in P12.
- Net capital expenditure of £3,790k is £1,110k higher than the budget of £2,680k.
- Investment works expenditure of £996k predominantly relates to bathroom and kitchen replacements.
- New build expenditure of £2,797k manly relates to Buckley Street which was fully complete in October.
- Both reported new build capital investment income and expenditure are lower than budget due to very little spend being recorded against the provision for units completing in 2021. At the time of approving the business plan, this provision had not been allocated against specific sites.
- Other capital expenditure relates to Group IT contribution. The full year budget includes £78k for the conversion/refurbishment of housing properties previously used as offices by Loretto Care services.

2f) Dunedin Canmore Housing – Year to date

Dunedin Canmore

	Year to 31 December 2019			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INCOME				
Rental Income	20,953	20,913	40	28,006
Void Losses	(181)	(230)	49	(310)
Net Rental Income	**20,773**	**20,683**	**90**	**27,696**
HAG Recognised in the Year	4,564	7,302	(2,738)	18,636
Other Income	1,670	1,566	104	2,340
TOTAL INCOME	**27,006**	**29,551**	**(2,544)**	**48,672**
EXPENDITURE				
Employee Costs - Direct	3,468	3,498	30	4,664
ER/VR	0	0	0	-
Employee Costs - Group Services	1,152	1,168	16	1,554
Direct Running Costs	2,249	2,293	44	3,030
Running Costs - Group Services	676	682	7	910
Revenue Repairs and Maintenance	2,873	2,815	(58)	3,826
Bad Debts	79	202	123	269
Depreciation	5,853	5,853	-	7,804
TOTAL EXPENDITURE	**16,350**	**16,510**	**160**	**22,057**
NET OPERATING SURPLUS / (DEFICIT)	**10,656**	**13,041**	**(2,384)**	**26,615**
Net Operating Margin	*39%*	*44%*	*-5%*	*55%*
Interest receivable	4	5	(1)	6
Interest payable	(5,890)	(6,083)	192	(7,676)
STATUTORY SURPLUS / (DEFICIT)	**4,770**	**6,962**	**(2,193)**	**18,945**

	Year to 31 December 2019			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INVESTMENT				
Total Capital Investment Income	**2,380**	**6,968**	**(4,588)**	**9,832**
Total Expenditure on Core Programme	5,329	4,299	(1,030)	5,738
New Build & Other Investment	13,568	19,513	5,945	22,005
Other Capital Expenditure	151	120	(31)	479
TOTAL CAPITAL EXPENDITURE	**19,048**	**23,932**	**4,884**	**28,222**
NET CAPITAL EXPENDITURE	**16,669**	**16,964**	**295**	**18,390**

Key highlights year to date:

- Net operating surplus of £10,656k is £2,384k adverse to budget. Statutory surplus for the year to date is £4,770k, £2,193k adverse to budget.
- Net rental income is reporting a £90k favourable variance following a strong letting performance in the year to date. Gross rental income is £40k favourable to budget largely due to the early completion of new build properties at North Berwick and Greendykes. Void losses in the year to date are 0.86% against a budget of 1.1%.
- Grant income recognised in the year of £4,564k relates to the completion of units at Ravelrig Road, North Berwick, Greendykes, Aberlady and Lang Loan. The adverse variance of £2,738k has arisen following completions which were budgeted in the current year but were accelerated and actually handed over in 2018/19. It should be noted that although there were are number of completions at Greendykes which were ahead of schedule, the remaining units were expected to be completed by period 8 but these are now not expected to be completed until Q4.
- Other Income is £104k favourable to budget and includes additional MMR lease income from Lowther Homes following the early completion of units at Ravelrig Road and North Berwick. DC Property Services ("DCPS") has generated a profit of £69k in the YTD. This is £10k favourable to budget.
- Total expenditure is £160k favourable to budget with lower levels of bad debt, direct running costs and direct employee costs to date. The bad debt budget was set prudently following the roll out of universal credit. Staff costs are reporting a favourable variance following the departure of the Director of Property Services in 2018/19 which was not reflected in the budget. Repairs and maintenance costs are £58k unfavourable to budget due to spend on reactive repairs which are £236k higher than budget. This is offset by lower levels of cyclical spend. The number of reactive repair jobs has increased by 10% year on year and is driven by customer demand.
- Interest expenditure is £192k favourable to budget, due to the timing of funding drawdowns. Borrowings are linked to the new build and core investment programmes.
- Investment expenditure on existing properties is £1,030k higher than budget. This is primarily driven by accelerated works and high levels of capitalised repairs.
- New build spend of £13,568k is £5,945k behind budget. Lower levels of spend is reported across a number of sites. The largest variance relates to South Gilmerton where the acquisition is taking longer than anticipated but is expected to be completed in January.

2g) Barony – Year to date

BARONY OVERALL	Year to 31st December 2019 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
Rental Income	1,555	1,618	(62)	2,147
Void Losses	(29)	(68)	39	(91)
NET RENTAL INCOME	**1,527**	**1,550**	**(23)**	**2,057**
Care Income	3,625	3,704	(79)	4,930
Grant Income	0	0	0	0
Other Income	83	30	53	40
TOTAL INCOME	**5,234**	**5,284**	**(49)**	**7,027**
EXPENDITURE				
Employee Costs - Direct	3,431	3,384	(47)	4,511
Employee Costs - Group Services	132	137	5	183
ER / VR	0	20	20	80
Direct Running Costs	492	566	75	755
Running Costs - Group Services	88	82	(6)	109
Revenue Repairs and Maintenance	362	360	(3)	479
Bad Debts	18	13	(5)	19
Depreciation	452	460	7	613
TOTAL EXPENDITURE	**4,975**	**5,021**	**46**	**6,749**
NET OPERATING SURPLUS / (DEFICIT)	**260**	**263**	**(3)**	**277**
NET OPERATING SURPLUS / (DEFICIT) BY DEPARTMENT				
Housing	**201**	**136**	**64**	**170**
Care & Care Offices	**65**	**127**	**(61)**	**107**
Interest receivable	3	0	3	0
Interest payable	(75)	(63)	(12)	(84)
STATUTORY SURPLUS / (DEFICIT)	**187**	**200**	**(13)**	**194**

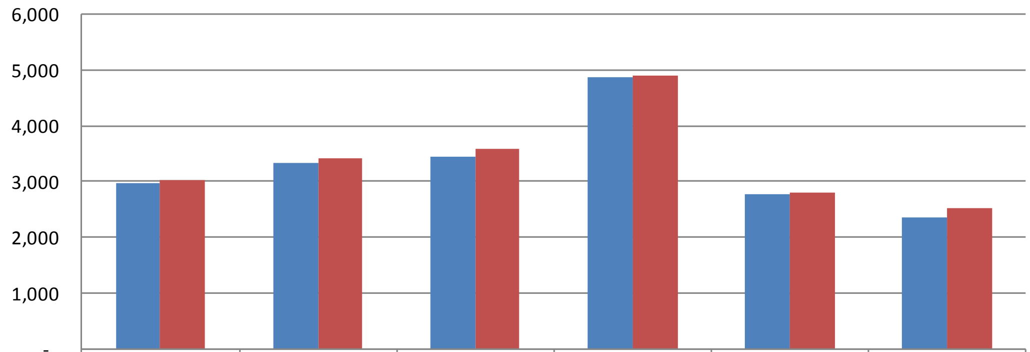
INVESTMENT	Year to 31st December 2019 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
Total Capital Investment Income	**0**	**0**	**0**	**0**
Total Expenditure on Core Programme	395	395	(1)	439
New Build & Other Investment	0	0	(0)	0
Other Capital Expenditure	0	0	(0)	0
TOTAL CAPITAL EXPENDITURE	**396**	**395**	**(1)**	**439**
NET CAPITAL EXPENDITURE	**396**	**395**	**(1)**	**439**

Key highlights year to date:

- Net operating surplus of £261k is in line with year to date budget. Statutory surplus of £189k is £9k unfavourable to budget. Total income is £50k unfavourable to budget, however savings in direct running costs has contributed to the year to date surplus generated of £261k.
- Net rental income of £1,526k is £24k unfavourable to budget for the year, due to lower supported rental and service charge income against budget.
- Care income of £3,637k is £67k unfavourable to budget due to fewer hours invoiced against budget at the Falkirk SDS Service (£62k unfavourable) and higher than budgeted voids at the Logie Road service (£21k v's budget £11k) in the year to date. The long term void at Logie Road has been filled in P9.
- Other income of £71k includes £34k recognised in relation to the VSDF project to cover staff training costs and £30k of DC Harbour income.
- Direct employee costs at £3,429k are £25k unfavourable to budget. Employee costs across care services are £18k favourable to budget linked to vacancies at services throughout the year, offset by agency spend at Edinburgh Supported Accommodation. This is offset by head office employee costs being unfavourable to budget, including additional Head of Care and Service Development Lead costs.
- Direct running costs of £492k are £64k favourable to budget. This includes staff travel costs, insurance and property costs and £34k of VSDF project expenditure to offset the income above. The underspend relates to savings in both care services and housing and is expected to come closer in line with budget as the year progresses.
- Repairs and maintenance expenditure of £362k is £1k unfavourable to budget for the year to date. Reactive and cyclical repairs work are carried our by colleagues in Dunedin Canmore Property Services. Reactive repairs are unfavourable to budget by £42k, this includes £32k of unplanned works carried out at Logie Road. Repairs and maintenance costs in Care & Care offices are £21k favourable to budget.
- Core programme expenditure of £373k, is £1k unfavourable to budget. Core investment spend is £45k below budget, this includes heating investment spend being behind budget by £26k. This is offset by capitalised voids spend being £33k unfavourable to budget and capitalised staff costs £13k unfavourable to budget.
- Other capital expenditure relates to the refurbishment of the Kirkcaldy Contact Point, with £22k spent to date.

3) Summary of RSL operating costs and margin v budget

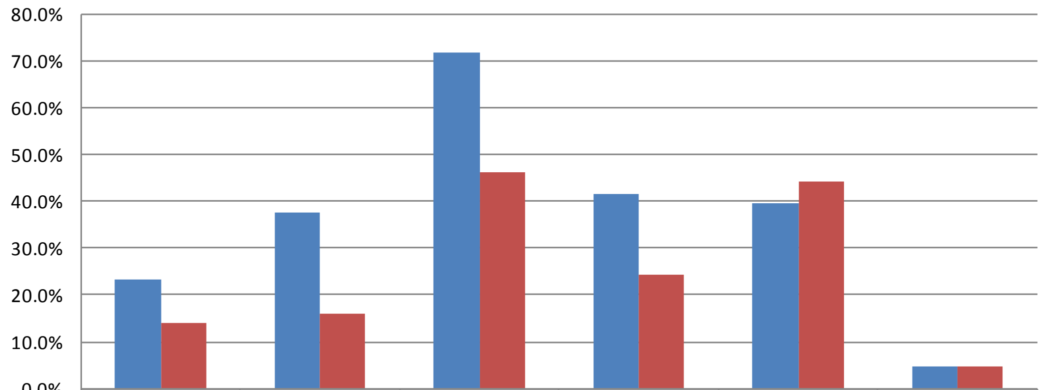
Operating costs per unit
YTD period 9



	GHA	Cube	WLHP	LHA	DCH	Barony
Actual	2,978	3,320	3,435	4,873	2,763	2,360
Budget	3,013	3,426	3,588	4,897	2,790	2,527

- Operating costs per unit:
  - At period 9 all RSLs are reporting favourable operating costs per unit for the year to date. This has been driven by lower levels of running costs recharged from Wheatley Solutions and lower than budgeted bad debts across the RSLs.
  - Operating costs per unit vary across the RSLs depending on the stock profiles and types of accommodation offered.

Net operating margin



	GHA	Cube	WLHP	LHA	DCH	Barony
Actual	23.5%	37.5%	71.8%	41.5%	39.5%	4.8%
Budget	14.2%	16.0%	46.3%	24.3%	44.1%	4.9%

- Net operating margin:
  - Net operating margin is favourable or in line with budget in all subsidiaries except Dunedin Canmore.
  - Dunedin Canmore is reporting a lower than budgeted net operating margin linked to the early completion of new build units which handed over last financial year and the recognition of the associated grant in 2018/19.

Wheatley Group Financial Report
To 31 December 2019 (Period 9)

Dumfries & Galloway Housing Partnership (DGHP)

4. DGHP - Year to date

	Year to December 19			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INCOME				
Rental Income	33,027	32,926	101	44,118
Void Losses	(636)	(481)	(155)	(639)
Net Rental Income	**32,391**	**32,445**	**(54)**	**43,479**
Grant Income	1,707	642	1,065	1,133
Other Income	1,064	1,037	27	1,408
TOTAL INCOME	**35,162**	**34,124**	**1,038**	**46,020**
EXPENDITURE				
Employee Costs - Direct	5,392	5,435	43	7,708
Employee Costs - Group Services	-	-	-	-
ER / VR	-	-	-	-
Direct Running Costs	4,191	4,100	(91)	5,280
Running Costs - Group Services	-	-	-	-
Revenue Repairs and Maintenance	14,949	14,993	44	20,796
Bad debts	520	679	159	904
Depreciation	5,800	6,007	207	8,009
TOTAL EXPENDITURE	**30,852**	**31,214**	**362**	**42,697**
NET OPERATING SURPLUS	**4,310**	**2,910**	**1,400**	**3,323**
Net operating margin	*12.3%*	*8.5%*	*3.7%*	*7.2%*
Interest receivable	202	158	44	211
Net Interest payable & similar charges	(11,429)	(5,327)	(6,102)	(7,141)
STATUTORY (DEFICIT)/SURPLUS	**(6,917)**	**(2,259)**	**(4,658)**	**(3,607)**

INVESTMENT				
TOTAL CAPITAL INVESTMENT INCOME	-	-	-	-
Total Expenditure on Core Programme	9,510	13,065	3,555	17,420
New Build & other investment expenditure	576	5,717	5,141	9,949
Other Capital Expenditure	341	750	409	1,000
TOTAL CAPITAL EXPENDITURE	**10,427**	**19,532**	**9,105**	**28,369**
NET CAPITAL EXPENDITURE	**10,427**	**19,532**	**9,105**	**28,369**

The results for DGHP presented for the year to period 9. Trading from 12 December will be consolidated into the Wheatley Group statutory results. The financial performance is reported against DGHP's approved budget for 2019/20 which is shown prior to the any adjustment to transition to Wheatley Group accounting policies.

Key highlights year to date:

- Net operating surplus of £4,310k is £1,400k favourable to budget. Statutory deficit for the year to date is £6,917k, £5,382k adverse to budget, [redacted].
- Total income for the year to date at £35,162k is £1,038k favourable to budget largely driven by a favourable variance in grant income which includes grant amortisation for HAG on completed new build properties of £860k and Supporting People and adaptations grant of £874k.
- Net rental income is reporting a £54k unfavourable variance in the year to date. Gross rental income is £101k favourable to budget. Void losses in the year to date are 1.93% against a budget of 1.50% with voids in demolition (non lettable) stock at 0.9% compared to budget of 0.5%. The unlettable void variances are caused by the accelerated emptying of the hard to let blocks across the region.
- Other Income of £1,064k year to date is in line with budget with £27k favourable to budget.
- Total expenditure is £362k favourable to budget with lower levels of bad debt, repairs and maintenance, depreciation and direct employee costs to date. The bad debt budget was set prudently following the roll out of universal credit. Staff costs are reporting an unfavourable variance due to additional costs in the utilisation of temporary staff, projected to continue to year end.
- Repairs and maintenance costs are £44k favourable to budget as a result of spend on reactive repairs which is £267k lower than budget. This is offset by higher levels of cyclical spend. Repairs are expected to be in line with budget by the year end, as the projected increase in winter demand, and demand triggered by partnership consultation takes effect.
- Interest expenditure is £6.1m unfavourable to budget, [redacted]
- Investment expenditure on existing properties is £3,555k lower than budget, but expected to be in line with budget by the year end.
- New build spend of £576k is £5,141k lower than budget with no new schemes as yet completed in 2019/20.

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Care and Commercial

5a) Loretto Care – redacted

5b) YourPlace – redacted

5c) Lowther – redacted

LOWTHER HOMES.

6. Wheatley Solutions – Year to date

EXPENDITURE	YTD Actual £ks (Year to Dec 19)	YTD Budget £ks (Year to Dec 19)	YTD Variance £ks (Year to Dec 19)	Full Year Budget £ks
Employee costs				
Executive Team	1,083	1,100	17	1,464
Employee Relations and WFP	1,277	1,250	(27)	1,663
Marketing and Communications	499	512	13	681
Finance	1,468	1,506	38	1,960
Assurance	1,055	992	(64)	1,320
Company Secretary	570	572	2	761
Business Growth	930	970	41	1,291
Information Technology	1,044	1,074	30	1,429
Wheatley Hub	2,827	2,853	25	3,793
Academy	647	668	21	889
Property	620	670	50	892
Wheatley 360	251	271	19	360
Total employee costs	12,063	12,228	165	16,265
Running costs				
Executive Team	98	152	54	238
Employee Relations and WFP	465	551	85	720
Marketing and Communications	349	336	(13)	399
Finance	381	313	(68)	403
Assurance	297	326	29	505
Company Secretary	280	320	40	400
Business Growth	474	332	(141)	437
Information Technology	2,531	2,743	212	3,664
Wheatley Hub	24	32	8	43
Academy	453	463	10	652
Property	1,545	1,468	(77)	1,920
Wheatley 360	21	23	3	31
Total running costs	7,087	7,228	140	9,638
TOTAL EXPENDITURE	**19,151**	**19,456**	**305**	**25,903**
Employee costs recharged by subsidiary:				
GHA	8,964	9,087	123	12,086
Lowther	167	170	2	225
YP	664	673	9	895
Loretto HA	200	203	3	270
Loretto Care	90	92	1	122
Cube	661	670	9	891
WLHP	26	26	0	35
Dunedin Canmore	1,152	1,168	16	1,554
Barony	138	140	2	186
Total	12,063	12,228	165	16,265
Running costs recharged by subsidiary:				
GHA	5,202	5,305	103	7,075
Lowther	183	186	4	248
YP	385	393	8	524
Loretto HA	116	119	2	158
Loretto Care	53	54	1	71
Cube	384	391	8	522
WLHP	15	15	0	20
Dunedin Canmore	669	682	13	910
Barony	80	82	2	109
Total	7,087	7,228	140	9,638
Operating Surplus / (Deficit)	**0**	**0**	**0**	**0**

Key highlights to date:

The table presents the financial performance of Wheatley Solutions for the nine month period to December 2019. Both employee costs and running costs are recovered in full each month by way of a recharge to each of the group subsidiaries. This recharge is reflected in the bottom half of the table.

Overall, Wheatley Solutions reports total expenditure of £19,223k. This is £233k lower than budget for the period with employee costs and running costs both being less than budget.

- Employee costs of £12,063k are favourable to budget by £165k for the period. The majority of the reported variances relate to changes to the budgeted structure in place as at 1st April 2019. An in-year savings target of £250k was set as part of this year's budget which is on track to be delivered.
  - Assurance department is £64k more than budget due to changes to the structure from 1st April linked to new FOI requirements.
  - Variance across Finance and Business Growth take into account staff being recharged to DGHP repairs project within IT capital.
- Running costs are £68k lower than budget for the first nine months. The key variances within this are:
  - IT reports spend that is £212k lower than budget. Budget savings of around £80k are anticipated in this area due to delivery of print savings and closure of legacy contracts. The remainder is due to timing variances. The cloud solution for backup and infrastructure services is now in operation and costs are now being incurred.
  - Finance reports expenditure that is £68k higher than budget for the first nine months. This relates to recruitment fees for vacancies in the team, and tax advice in relation to potential VAT savings . Due to a timing delay in FCA approving Wheatley Solutions to act as an insurance intermediary, budgeted income from this activity has not been realised as this income continues to be received by Lowther Homes.
  - Lower than budgeted W.E benefit claims are the reason for Employee Relations being £85k better than budget for the period.
  - Business Growth expenditure of £474k includes YTD expenditure on DGHP due diligence costs.
  - Property is currently £77k higher than budget. This is linked to external legal advice for contractor negligence claims (Duke Street and Wyndford).

7. Wheatley Foundation – redacted

8. City Building (Glasgow) LLP - redacted

9. Wheatley Group – Consolidated Balance Sheet

Balance Sheet	Current Month As at 31 Dec 2019 £ks	Previous yr end As at 31 March 2019 £ks
Fixed Assets		
Social Housing Properties	1,777,848	1,794,837
Properties under construction	165,542	92,442
Other tangible fixed assets	59,328	55,004
Investment properties	200,166	200,235
Investments -other	87	87
Fixed Assets	**2,202,971**	**2,142,605**
Debtors Due More Than One Year		
Development Agreement	27,318	38,420
Inter Company Loan	0	0
Pension Asset	15,774	15,774
Current Assets		
Trade debtors	0	0
Rent & Service charge arrears	9,304	15,173
less: Provision for rent arrears	(5,682)	(4,559)
Prepayments and accrued income	3,197	6,375
Intercompany debtors	0	0
Other debtors	15,895	14,180
	22,714	**31,169**
Bank & Cash	33,670	33,644
Current Assets	**56,384**	**64,813**
Current Liabilities		
Trade Liabilities	(7,007)	(9,222)
Accruals	(36,437)	(45,770)
Deferred income	(59,601)	(77,766)
Rents & service charges in advance	(10,146)	(9,177)
Intercompany creditors	0	0
Other creditors	(8,882)	(10,447)
	(122,073)	**(152,382)**
Net Current Assets	**(38,371)**	**(49,149)**
Long Term Liabilities		
Contingent efficiencies grant	(35,531)	(35,531)
Bank finance	(941,221)	(877,614)
Bond finance	(300,000)	(300,000)
Development Agreement	(27,318)	(38,420)
Provisions	(3,699)	(3,699)
Deferred income	0	0
Intercompany creditors	0	0
Other creditors	0	0
Pension liability	(8,027)	(8,027)
Long Term Liabilities	**(1,315,796)**	**(1,263,291)**
Net Assets	**864,578**	**845,939**
Funding Employed		
Capital & Reserves		
Share Capital	0	0
Retained Income b/fwd	611,213	611,089
Income & Expenditure	18,515	0
Movement in Pensions Provision	0	0
Designated Reserves	0	0
Revaluation Reserves	234,850	234,850
Funding Employed	**864,578**	**845,939**

Key highlights:

- Group net assets stand at £864.6m at 31 December 2019.
- The Balance Sheet as at 31 March 2019 reflects the audited statutory accounts for 2018/19 and includes the year end statutory adjustments for property and pension valuations as well as fair value calculation on the Scottish Government loan.
- Current assets (excluding cash) are £8.5m lower than the year end position with lower balances for rent arrears and prepayments, which fluctuate throughout the year depending on the timing of invoices.
- Current liabilities are £30.3m lower than the year end position. The variance has been driven by the £18.2m movement on the deferred income line. This movement relates to the release of £38.3m of deferred income to the Statement of Comprehensive Income on completion of new build properties less any grant received in the current year (£20.1m).
- Long term liabilities are £52.5m higher with additional borrowings in WFL1 of £63m in the year. This is offset by the reduction in the development agreement of £9.5m. In October the RSL Borrower group drew down £85m on the new facility with EIB and repaid £60m of our other debt with the bank syndicate.
- Income and expenditure of £18,519k relates to the group profit for the year to date.

10) Wheatley Group – Q3 Forecast

Group - £m	FULL YEAR		
	Budget	Qtr 3 Forecast	Qtr 3 Variance
INCOME			
Net Rental Income	246,299	246,529	230
Grant Income	60,629	60,288	(341)
Other Income	48,875	50,175	1,300
Total Group Income	**355,803**	**356,992**	**1,189**
EXPENDITURE			
Employee Costs	78,001	78,001	-
ER/VR	1,227	2,077	(850)
Running Costs	49,161	50,211	(1,050)
Repairs & Maintenance	38,700	37,660	1,040
Irrecoverable VAT & bad debt	11,013	10,918	95
Depreciation	76,956	76,956	-
Demolition	496	396	100
Toal Group Expenditure	**255,554**	**256,219**	**(665)**
NET OPERATING SURPLUS	**100,249**	**100,773**	**524**
Net operating margin	*28.2%*	*28.2%*	*0.1%*
Gain/(loss) on sale of fixed assets	-	-	-
Net Interest Payable	(66,146)	(65,929)	217
STATUTORY SURPLUS	**34,102**	**34,845**	**741**

INVESTMENT			
Total Capital Investment Income	43,025	34,383	(8,642)
Core Investment Programme	64,409	60,916	3,493
New Build Programme	107,003	90,159	16,844
Other fixed assets	5,150	5,136	14
NET CAPITAL INVESTMENT SPEND	**(133,536)**	**(121,827)**	**11,709**

Key highlights:

- The Group-wide forecast at the end of Quarter 3 shows an operating profit of £100,773k, £524k favourable to budget and a statutory surplus of £34,845k, £741k higher than the budgeted level also. The results of DGHP are not included in the Group forecast or budget pending the alignment of group accounting policies.
- Net rental income is expected to be slightly higher than budgeted (£230k) with the favourable year to date position in the RSLs offset by lower rental income in Lowther Homes following new build delays.
- Grant income is expected to be £341k lower than budget. The forecast includes the impact of the grant recognised on the delayed 2018/19 handovers in GHA, Cube and Loretto Housing, offset by the delayed 2019/20 completions at GHA's Linkwood, Bellrock and Kennishead sites which had been budgeted to complete in Q4.
- Other Income is forecast to be £1,300k higher than budgeted driven by the higher than budgeted insurance premium income in YourPlace. This is offset by additional cost of sales, reported through running costs.
- Operating costs are expected to be £665k lower than budget, as a result of higher levels of ER/VR and YourPlace cost of sales. Repairs and demolition costs expected to be lower as a result of lower cyclical spend in the year and a re-profiling of spend into 2020/21 for demolition costs at the Gallowgate site.
- ERVR costs are forecast to be £850k higher than budget and are part of addressing some of the long term structural issues with our ageing workforce discussed previously at the Board we have accelerated change in a number of leadership roles as well as a number of housing officer positions, whilst introducing our graduate programme.
- Capital Investment Income is expected to be £8.6m lower than budgeted following accelerated claims in 2018/19 and delays to Sighthill, Kennishead and Queen's Quay developments.
- Capital expenditure is expected to be £20.4m lower only with the new build programme driving this variance. Again, the variance is largely linked to the later than budgeted site starts at GHA's Kennishead and Sighthill, Cube's Queen's Quay developments, Dunedin Canmore's South Gilmerton site and across a number of smaller developments.

Report

To: **Wheatley Housing Group Board**

By: **Steven Henderson, Group Director of Finance**

Approved by: **Martin Armstrong, Group Chief Executive**

Subject:- **Group Treasury Report**

Date of Meeting:- **19 February 2020**

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1. Purpose

1.1 The purpose of the report is to provide a Group Treasury operations update up to the quarter end 31 December 2019.

2. Authorising context

2.1 The Group Standing Orders state that matters in relation to Group treasury management and funding are reserved to the Group Board.

3. Risk appetite and assessment

3.1 The Board's risk appetite for funding risk is "cautious", which is defined as "preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward".

3.2 This report provides an overview of the Group's treasury operations, including compliance with Board approved Treasury Management Policy, borrowing and investment plans and management of financial risks to allow the Board to perform its role effectively.

4. Background

4.1 In February 2019 the Board approved the Business Plan Financial Projections and total borrowings for the year for the Group, including the individual subsidiaries' borrowing limits.

4.2 This report sets out the current Group funding position and the projected borrowings for financial year 2019/20.

4.3 As Dumfries and Galloway Housing Partnership (DGHP) joined the Group in December 2019, this report and attached appendix includes an update on its treasury and cash positions.

5. Discussion

5.1 Appendix 1 provides an update on treasury performance for the quarter to 31 December 2019 together with detailed analysis of Group cash flow and details the forecast borrowing requirements. Key issues for note/consideration are summarised below:

5.1.1 ***Cash:*** at 31 December 2019 the Group held total cash balances of £78.51m. DGHP held a £45m cash balance with £2m held under a trust account for the benefit of THFC, £11m in instant access accounts with RBS and £32m on deposit across several commercial banks.

5.1.2 Our other RSLs held total cash balances of £15.1m, with a projected net cash consumption of £36.6m for Q4. To optimise the cash holding in the Group and reduce interest costs, cash balances are reviewed on a daily basis and Revolving Credit Facilities (“RCFs”) are being utilised when required.

5.1.3 ***Group Funding:*** as at 31 December 2019, total drawn debt for the Group was £1.42 billion with 96% subject to fixed rates. £1,142.8m of this borrowing related to WFL1 debt for the RSL borrowing group, £32.5m in direct bilateral loans to Dunedin Canmore, £170.3m for DGHP and £76.5m for Lowther Homes.

5.1.4 On October 1st 2019, £85.0m was drawn against the £185.0m EIB 2018 debt (£185.0m total). The funds have been utilised to repay £60.0m of the drawn RCF balances, with the remaining £25.0m being used to fund the RSL borrowing requirement.

5.1.5 ***Interest & funding fees payable***: financing costs for the Group (excluding DGHP) were £14.9m for the quarter, of which £14.1m was attributable to the RSL Group. This is in cash paid terms, which differs from the interest payable presented in the management accounts as this includes accruals and adjustments.

5.1.6 ***Cash flow***: Projected cash outflows anticipate drawdowns of £33.7m of cash from WFL1 in Q4 (GHA £25.5m, Cube £4.2m, WLHP £3.6m) to support their development and maintenance programmes.

5.1.7 ***Debt Facilities***: We anticipate c.£101.3m of cash requirements (including contingency) in the next 15 months for the RSL borrowing group. In line with the liquidity Golden Rule, there are adequate immediately available funds to cover cash requirements for 15 months plus a 25% contingency.

5.1.8 **Security:** Progress has been made on the build to secure program with 18 schemes identified for the next charging exercise (minimum expected value of £58m). Draft certificates of title have been prepared by Pinsent Masons, which are being shared with EIB’s lawyers at present. All assets secured will be charged to EIB to allow additional funds to be drawn against this efficiently priced facility. We anticipate completion by financial year end.

Borrowing requirements

5.2 The 2019/20 Business Plans, setting out the borrowing requirements for the RSL borrower group for 2019/20, were presented to and approved by the Board in February 2019. This allows for the increase in WFL1 debt drawn to a maximum of £1,222.0m by the end of 2019/20. Current facilities (total drawn plus undrawn) stand at £1,526.2m providing significant headroom and a strong liquidity base.

5.3 As noted in the separate paper on the agenda, DGHP's debt raising with Allia in March 2020 will complete its medium-term funding requirements.

6. Key issues and conclusions

6.1 In the quarter to 31 December 2019, the Group is fully covenant compliant. Group borrowings remain in line with the business plans.

7. Value for money implications

7.1 The building and maintaining of a robust funding structure for the Group and all the associated RSLs is central to the Group's value for money Framework.

7.2 The appropriate monitoring and reporting on the Group's funding position and the delivery of the new funding supports the long-term financial security of all the organisations within the Group.

8. Impact on financial projections

8.1 Interest payable on borrowings and interest receivable on cash investments has an impact on the bottom-line surplus for the Group. The impact of any changes in actual spend profile, resulting in additional borrowings over and above the business plan / budget or lower than forecast additional debt drawdowns, is monitored and reported quarterly.

8.2 There are no other operating surplus implications arising from this report.

9. Legal, regulatory and charitable implications

9.1 There are no other legal, regulatory and charitable implications to note.

10. Partnership implications

10.1 There are no other partnership issues to note.

11. Implementation and deployment

11.1 There are no additional implementation and deployment issues to note.

12. Equalities impact

12.1 There is no equalities impact identified as a result of this report.

13. Recommendation

13.1 The Board is requested to note the content of the quarterly treasury report.

List of Appendices

Appendix 1 - Wheatley Group Quarterly Treasury Report

Making homes and lives better
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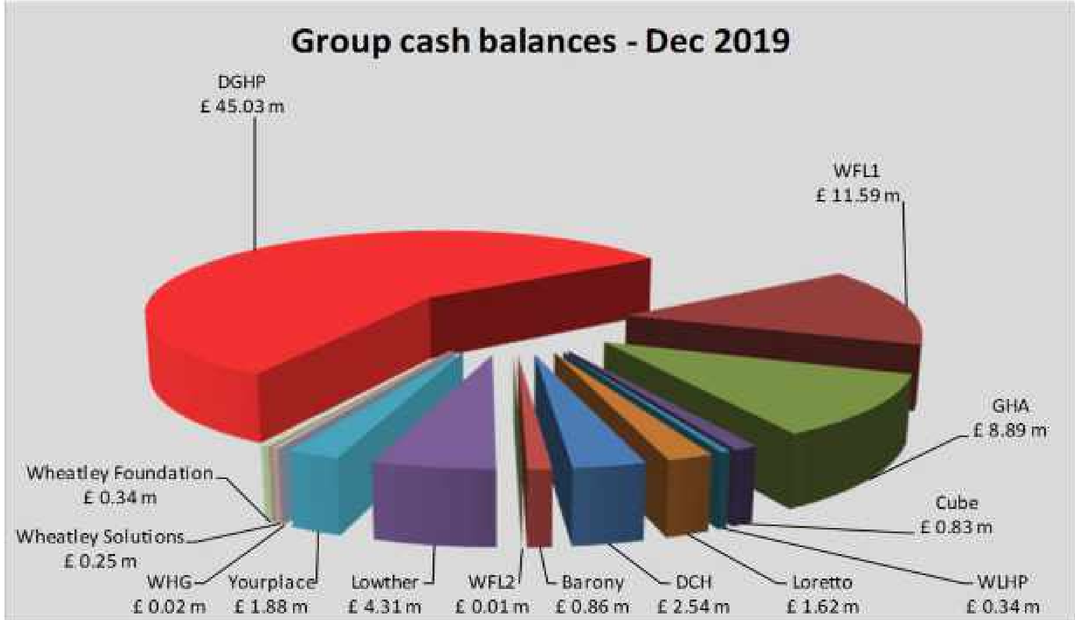
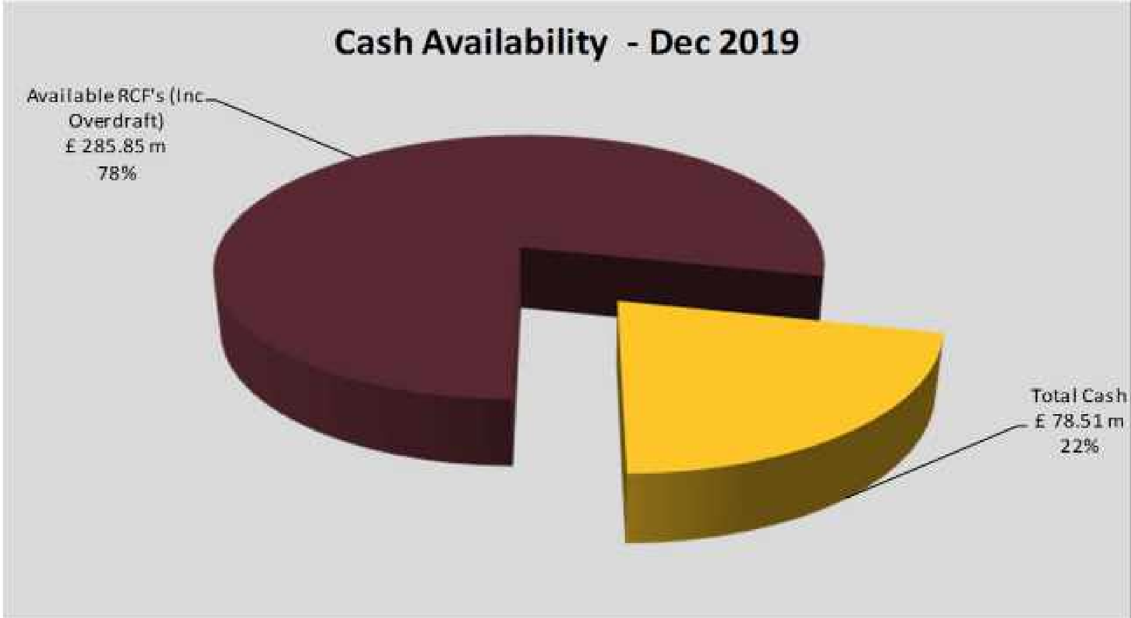
Appendix 1
Group Treasury Report
31 December 2019

Note – Comparative period figures throughout the report do not include DGHP, who Joined the Group in December 2019

Wheatley Group Liquidity

Immediately accessible funds





The Group Treasury Management Policy (TMP) defines that the Group should hold cash required to meet its monthly cash requirement at all times. This cash is required to cover day-to-day running costs as well as any planned capital investment activities. Cash balances should be held with counterparties which meet the credit rating criteria as set out in the Group TMP.

The Group had cash balances at 31 December 2019 of £78.51m (£23.88m at 30 September 2019) split between the **RSLs** (£15.08m), WFL1 (£11.60m), **commercial and other entities** (£6.80m) and **DGHP** (£45.03m).

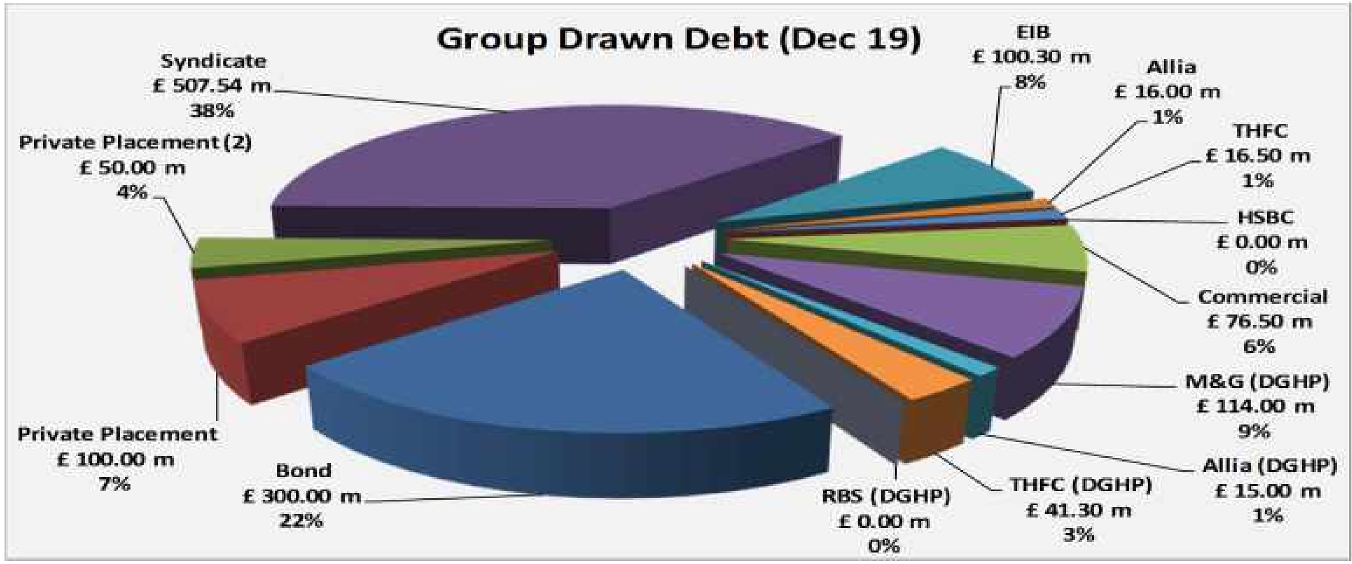
Available undrawn Revolving Credit Facilities include:

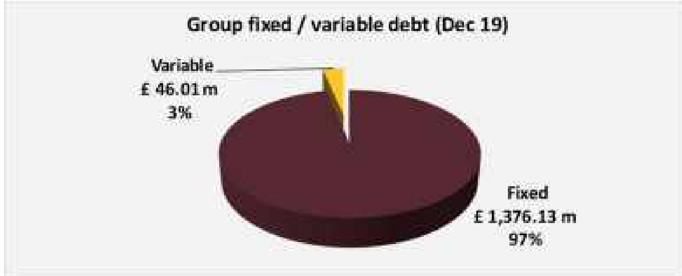
WFL1: Syndicate RCFs - £140.85m, HSBC - £100.00m and a £10.00m overdraft

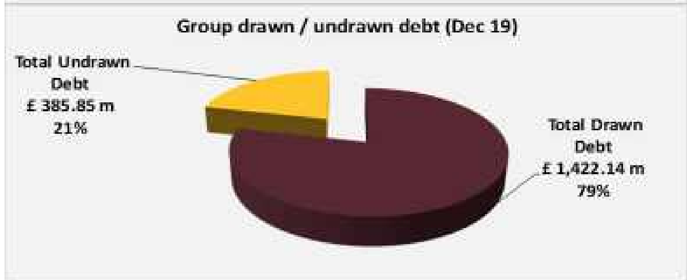
DGHP – RCF £35m

Q3 saw an increase in WFL1 term debt drawn (first tranche of £85.00m EIB 2018 debt drawn) and a decrease in WFL1 RCF debt of £60.00m (£40.00m syndicate and £20.00m HSBC debt repaid). [sentence redacted].

Wheatley Group Borrowings







- Wheatley Group had £1,807.99m of capital market and bank facilities in place with total Group drawn debt as at 31 December 2019 of £1,422.14m (September - £1,226.84m). This comprises WFL1 debt of £1,142.8m (September - £1,117.8m), two direct loans to Dunedin Canmore totalling £32.50m (September - £32.50m), three direct loans with DGHP (£170.3m) and £76.5m (September - £76.5m) for Lowther Homes. Undrawn debt includes £100.00m EIB 2018 debt and £250.85 undrawn RCFs.
- Intra-group borrowings (with WFL1) in the quarter were £14.5m lower than projected (£28.1m forecast v £13.6m actual), with GHA accounting for the majority of the variance. GHA drew intra-group funds of £5.0m against a £21.0m forecast. A housing benefit payment (£7.0m) forecast for Q4 was received in Q3 and contributed towards an overall increase in rental income of £11.1m (£45.2m vs £34.1m). Due to timing of submissions, grant income was also higher than expected for the period (£5.1m vs £2.2m) while intercompany settlement balances of £9.2m were received (vs a forecast of £4.4m). The increase in cash received coupled with new build expenditure being £3.3m less than anticipated (£15.3m vs £12m) resulted in GHA having a cash balance of £8.9m against a £1.7m forecast.
- During the quarter the fixed : variable ratio changed to 97% : 3% which is skewed as a result of DGHP joining the group. Excluding the DGHP loans (all currently on fixed rates) the fixed : variable ratio for December 2019 was 96% : 4% (September – 92% : 8%) as a result of the repayment of variable rate RCF's (£60.0m), facilitated by the drawdown of £85.00m of EIB 2018 debt on a fixed rate.
- On 20th December 2019, DGHP finalised a facility with M&G for £114.00m, split across 3 tranches (£45.00m expiring 31/03/2035, £24.00m expiring 31/03/2042 and £45.00m expiring 31/03/2055). [sentence redacted]
- DGHP also secured a £35m RCF facility with RBS which expires in financial year ended 2026. This facility remains undrawn as at 31st December.

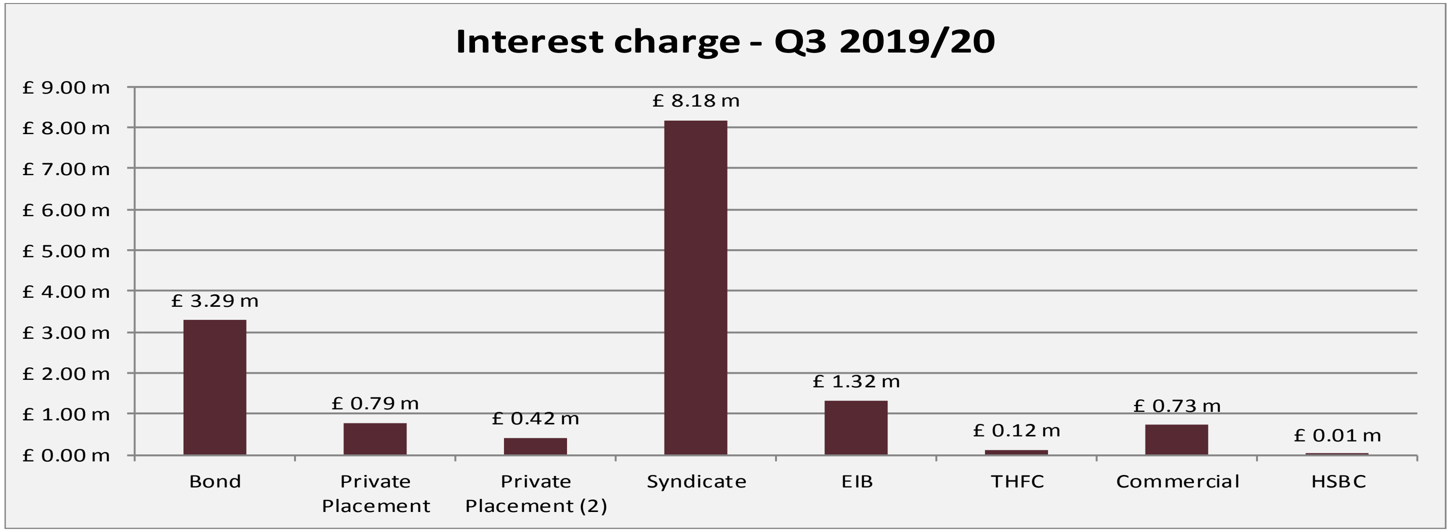
Wheatley Group Interest

•Interest and funding fees payable by the Group on all loans in the Quarter to 31 December 2019 was £14.9m, of which £14.1m was attributable to the RSL Borrower Group. Non-utilisation fees were £0.42m in Q3.

•The weighted average interest rate of the RSL Group funding for the preceding 12 months was 4.93% (September – 4.92%).

•The weighted average for Q3 has reduced to 4.81% from 4.94% primarily due to the drawdown of £85m from EIB at a rate of 1.425%.

•As DGHP joined the Group in late December 2019, interest payments have not been included in this periods reporting.



RSL Borrowing Group - Quarterly Cash Flow / Funding Forecast

Wheatley Group

RSL Group Cashflow Forecast - Q4 2019/20								
	GHA	CUBE	WLHP	LORETTO	DCH	Barony	RSL Group	WFL1
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net Cash Flow	**-19,183**	**-3,868**	**-584**	**-72**	**1,485**	**136**	**-22,086**	**14,543**
FINANCING COSTS	-10,949	-1,163	-199	-442	-1,766	-24	-14,543	-12,600
Net Cash Flow after Funding Costs	**-30,132**	**-5,031**	**-783**	**-514**	**-281**	**113**	**-36,628**	**1,943**
OPENING CASH BALANCE	**8,891**	**833**	**343**	**1,621**	**2,535**	**858**	**15,081**	**11,595**
Net Cash Flow	-30,132	-5,031	-783	-514	-281	113	-36,628	1,943
Intra-Group Repayment								
Intra-Group Funding	**25,500**	**4,200**	**3,596**	**0**	**0**	**0**	**33,296**	**-33,296**
External Funding	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**25,000**
External Funding Repayment	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,500**
Cash Balance after Funding	**4,259**	**2**	**3,156**	**1,107**	**2,254**	**971**	**11,749**	**1,742**
Q4 Opening Debt Balance	855,000	89,700	18,750	33,800	167,550	1,800	**1,166,600**	**1,142,837**
Q4 Closing Debt Balance (Forecast)	880,500	93,900	22,346	33,800	167,550	1,800	**1,199,896**	**1,164,337**

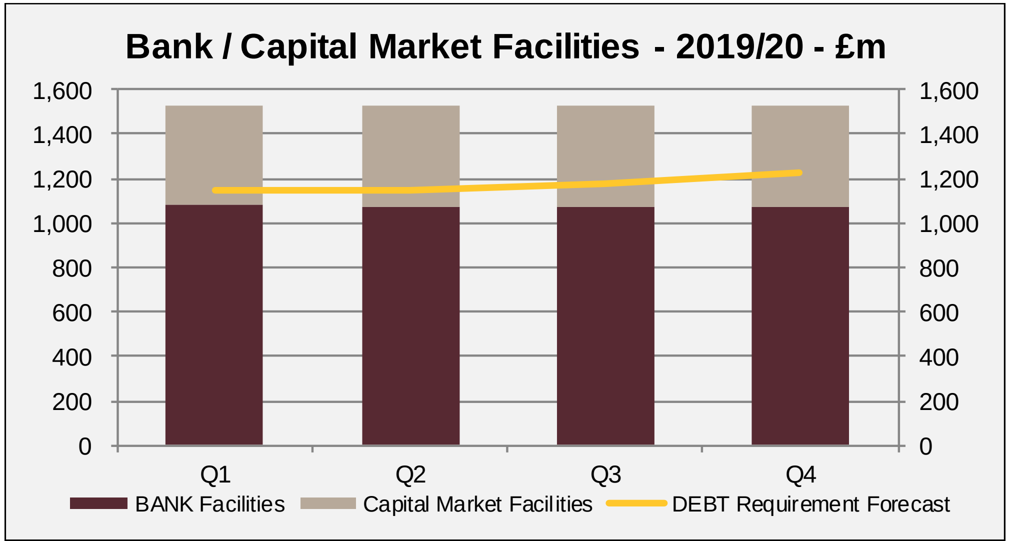
RSLs anticipated a funding requirement of £34.0m during the quarter, when forecasts were carried out at 31 December 2019. As at 31st January there have been no drawdowns with the remaining funds expected to be drawn in February (£15.50m) and March (£14.00m), bringing updated forecasted funding requirement for the quarter to £29.50m. This position is monitored on a daily basis to ensure optimum cash management policies are applied.

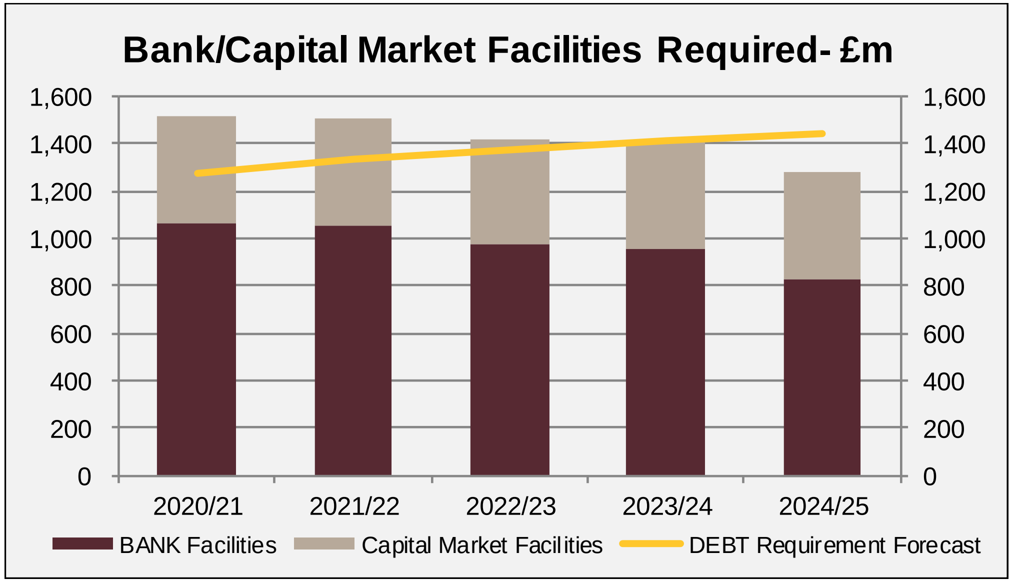
WFL1 drawn debt was £1,142.80m at 31 December 2019. In Q4 funding will be met by drawing down RCF availability pending the completion of the security charging exercise set out in page 6.

With an opening cash balance of £11.60m, a net increase of £21.50m debt during the quarter and a net cash inflow (Interest received from RSL's minus interest paid out in the quarter) of £1.94m, sufficient funds are available to meet RSL borrowing requirements. Capital repayments of £3.50m (£2.40m EIB & £1.10m Syndicate) are also due in the quarter.

In Q3 funding requirements were within business plans approved limit. Borrowing requirements for Q4 also remain within the business plan approved limits.

RSL Borrowing Group – Debt and Funding Strategy





Borrowing Requirement

Current Funding – 2019/20

- The 2019/20 Business Plan approved by Board in February 2019 authorised RSL Group borrowings to increase to £1,222.0m during the year.
- We have Golden Rules in place governing required liquidity levels against both our overall cashflows and to our committed development programme. At the end of December these rules have been met.
- The liquidity Golden Rule requires us to have immediately available funds to cover cash requirements for 15 months plus 25% contingency. We anticipate c.£101.3m of cash requirements (including contingency) in the next 15 months and our golden rule is therefore met as cash availability is £284.4m (£250.9m of RCF availability + £33.5m cash held) .

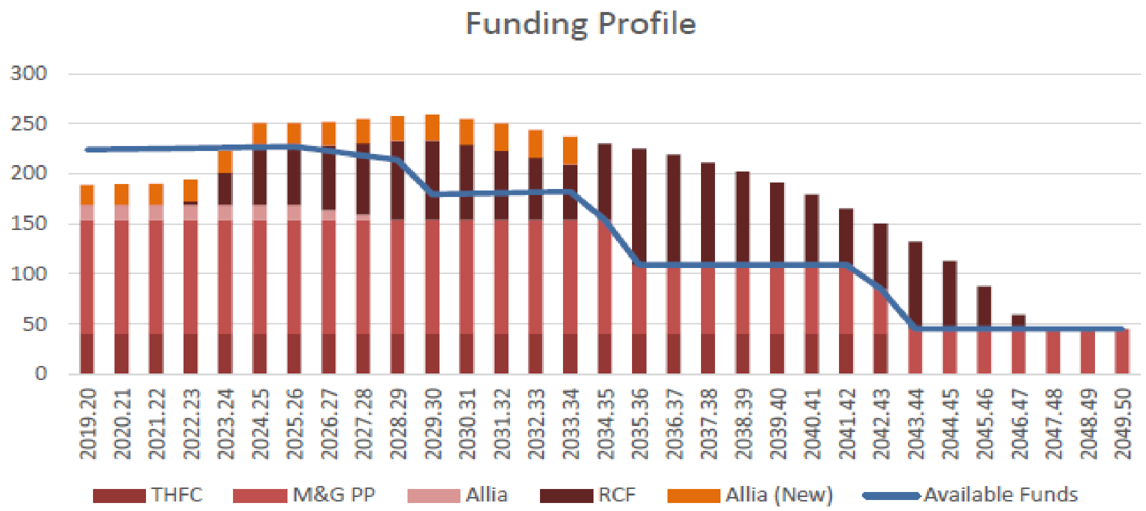
Funding Strategy

- We are currently engaged with WFL1 lenders on various loan amendments, including changes to pricing, maturity dates and availability periods on our Syndicate RCFs.
- Facility C (£65.00m) is due to expire June 2022. We anticipate refinancing this facility with RBS and Lloyds over the course of the next several months.
- The next refinancing due after the above will be in relation to the HSBC RCF (£100.00m) scheduled to expire in 2024.
- Our intention is to draw £50.00m EIB funds once the security charging exercise is completed (discussed on page 6). Any interim funding requirement will be covered by short term use of RCF facilities.

DGHP – Debt and Funding Strategy

Following the refinancing in December 2019, £149m of new facilities were put in place (M&G £114m and RBS £35m) supporting the new build program and providing sufficient working capital, with a forecast cash reserve position of c. £41.4m by 31 March 2020. The business plan anticipates investment programme spend of £75.5m over the next 5 years and the new build programme £82.4m over the same period.

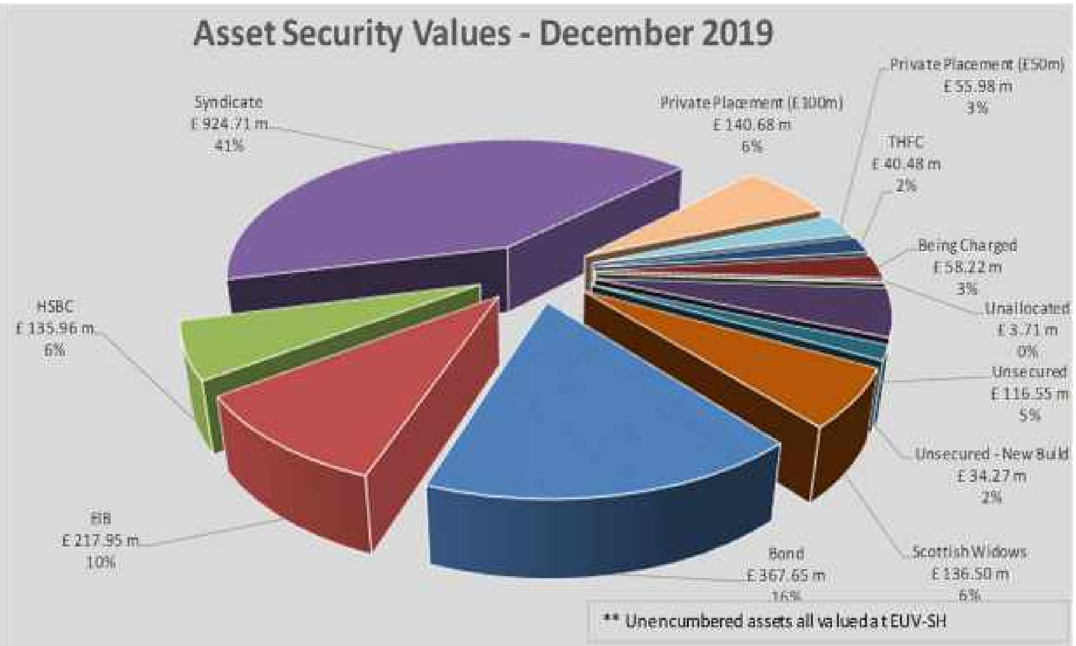
Advanced discussions are in place with Allia for an additional £20m of funding (anticipated to draw in March 2020) which will ensure funding through to financial year ending 2024, at which point, based on current forecasts, further financing will be required.



RSL Borrowing Group - Assets and Security

Current security position

- The housing assets of the RSL Borrowing Group are pooled for asset security purposes and cross-guarantees are in place between the RSLs to maximise the efficiency of the funding platform.
- [sentence redacted]. As at 31 December 2019 and excluding assets forming part of the charging exercise underway, £40.5m of Dunedin Canmore assets are unencumbered.



Future security position

- We are in an advanced stage on our current charging exercise with 18 developments being secured to allow an additional drawdown on the EIB 2018 debt. Draft certificates of title have been shared with EIB's lawyers and we anticipate completion by FYE. This exercise comprises 950 units which have an estimated value of between £58m and £64m (depending on title restrictions identified through the legal diligence work, limiting the valuation basis to EUV-SH).
- Securing these assets will allow us to draw £54.00m of a total £100.00m availability from the EIB 2018 debt, leaving £46.00m undrawn.
- Following completion of the above exercise, 2,760 units remain unsecured (including 612 new build units completed April – December). The total asset value is estimated at c.£150.83m (EUV-SH).
- Upon completion of the current charging exercise, we will commence the next round, to provide sufficient security to fully draw the EIB 2018 debt.

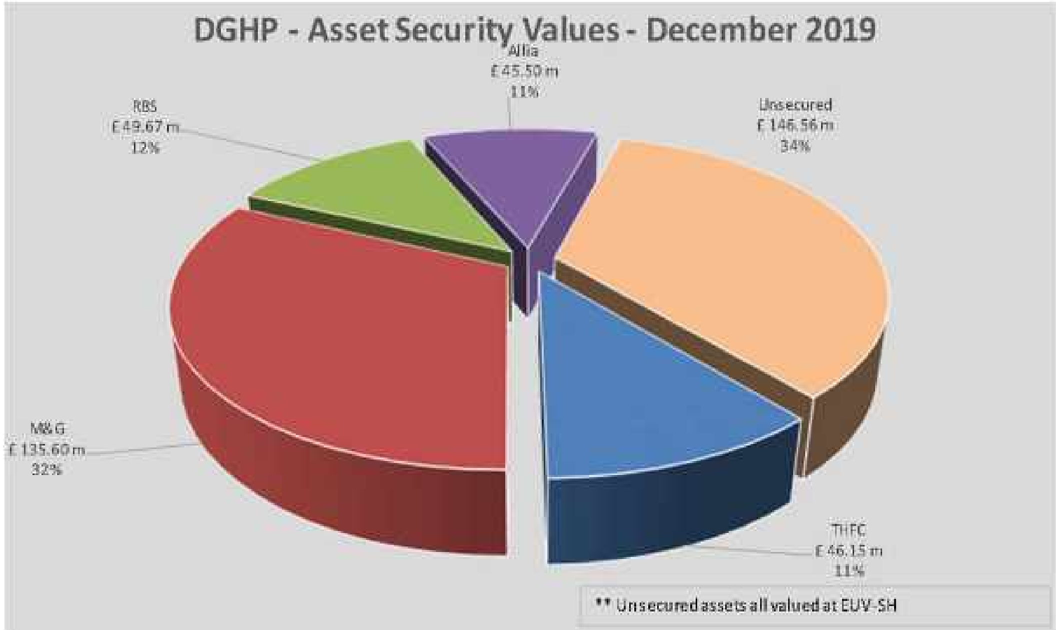
DGHP - Assets and Security

•The £114m **M&G** and £35m **RBS** facilities were completed in December 2019. Both lenders agreed to provide funding on an initial 6-month unsecured period which enabled DGHP to prepay their incumbent lender prior to the end of the calendar year. [sentence redacted]. Due to title work already completed as part of the diligence exercise undertaken for WHG lender consent, property diligence was already in an advanced stage by the time the financing completed. We were therefore able to conclude the security charging exercise on 24 January 2020.

•There are legacy facilities in place with **THFC** (£41.3m), against which £46.15m of assets are secured.

•DGHP has legacy facilities with **Allia** totalling £15m and is in negotiations to draw a further £20m in March 2020. [redacted].

•The remaining **unsecured assets** are valued at £146.56m on an EUV-SH basis. These assets will form part of the WHG security pool in the event that DGHP join the RSL Borrower group.



WFL1 covenant compliance

[Table redacted]

- For the quarter to 31 December 2019 we have complied with all Treasury policies, set out in the approved Treasury Management Policy.
- The RSL Borrowing Group has six sets of funding covenants related to its different funding facilities being reported this quarter: commercial bank loan facilities, Private Placement (2017 and 2018 issuances), HSBC and EIB loan facilities.
- We have a process in place where financial covenants based on the projected year end position, are monitored on a monthly basis to ensure that any corrective actions can be taken as soon as possible
- Based on our financial results as at 31 December 2019 all funding covenants were met
- As part of managing our counterparty credit risk, i.e. the risk that a change to our counterparty's financial strength may have an adverse effect on WHG, we regularly monitor the credit ratings and also market information for all treasury counterparties (i.e. banks and financial institutions we deal with). We will monitor the ratings of our counterparties and make recommendations for any changes should it be necessary.

[Redacted]

DGHP covenant compliance

- DGHP has four sets of covenants related to its different funding facilities: Allia (reported at year end), M&G, RBS and THFC (reported at year end).
- As the M&G and RBS facilities were signed in late December 2019, agreement was obtained from the funders that the first set of covenant reporting would be in relation to the March 2020 quarter end.
- Covenant compliance is monitored on a monthly basis and reported to the DGHP Board.
- Covenant values as at 31 December 2019 are reported below. As the RBS facility is undrawn, not all covenants can be calculated.

[table redacted]

Wheatley Group