WHEATLEY HOUSING GROUP LIMITED

BOARD MEETING

24 February 2021
By Videoconference

AGENDA

1. Apologies for Absence

2. Declarations of Interest

3. Minutes of Meetings held on 16 December 2020 and 18 January 2021 and matters arising

4. Group CEO Update

Main Business Items

5. [redacted]

6. Cube Wyndford CIP deployment (Presentation only)

7. Business update – Housing and care

8. Approach to vaccination (Presentation only)

9. a. Group new build performance report
   b. Group Five Year Development Programme

10. a) Rent and other charges 2021/22
    b) Group and Partner Financial Projections

Other Business Items

11. Group Delivery Plan 2020/21 Quarter 3 Performance

12. Finance Report

13. Group Treasury Report

14. Governance update

15. AOCB

Report

To: **Wheatley Housing Group Board**

By: **Olga Clayton, Group Director of Housing and Care**

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

Subject: **Business update - Housing and care**

Date: **24 February 2021**

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1. Purpose

1.1 This report provides an update on our response to the impact of the current pandemic on our services, partner organisations, their tenants and communities.

2. Authorising context

2.1 The activities addressed in this report are principally of an operational nature, and are therefore delegated to the Group CEO under the Group Standing Orders. The Board has been kept regularly appraised of our progress through email updates.

3. Risk appetite and assessment

3.1 The unprecedented nature of the current situation raises risks in a number of key areas. These include:

i. *Customers* - risks that our customers may suffer hardship and distress, not just through the risk of catching or through having the virus itself, but through the current government measures causing other effects such as hunger, isolation and mental and physical health problems

ii. *Staff* - risks that staff are exposed to the virus, especially those engaged in customer-facing activity; that we have a reduced workforce due to illness and/or self-isolating, and that those working from home may not be able to function effectively

iii. *Financial viability* - risks to our financial position, such as increasing rent arrears and reduced cash flow

3.2 These areas and the steps we continue to take to mitigate the risks are addressed below.

4. Background

4.1 This report provides a further update on our contingency operations to support both essential business and the new issues faced by our RSLs and tenants.

4.2 It outlines our current remobilisation status across key customer facing areas following the Scottish Government's move to tier 4 restrictions on 26 December 2020 and then to a lockdown from 5 January 2021 applying to the whole of the Scottish mainland.

4.3 Maintaining service delivery in line with restrictions, ensuring safety and providing the best customer service possible remains a challenging operation. Rapid changes in Scottish Government guidance and in local situations means our service planning and our staff have to be highly agile. We continually review our services in the light of guidance but also from our own learning, seeking to ensure that our approach and processes remain exemplars for the sector.

4.4 Staff and customer communication is at the heart of this approach to ensure that they understand what we are doing, why and to be reassured that our processes keep them safe. Despite these challenges we have continued to meet the targets we have set for our remobilisation plans.

5. Discussion

5.1 Over the summer and autumn, we expanded from our essential services, scaling up delivery as restrictions have allowed. This allowed us to bring many services back to normal volume levels. Achievements included:

- Returning to a position where all gas services are up to date after delays were caused by the first lockdown;

- The number of voids properties returned to normal levels following increased numbers during the first lockdown when almost no letting was possible;

- From 22 June 2020 repairs moved from essential only to Safety First (including for example repairs to showers, controlled entries, persistent leaks) and from 2 November 2020 to an extended repairs service which was closer to business as usual except for works which could not be done safely.

5.2 Our agility and rapid ability to scale up services has allowed us to create a much stronger position going into 2021 than would otherwise have been the case. However, the lockdown for the Scottish mainland means that we have had to review and amend our services in line with new restrictions. Our experience and agility means that we have strong planning mechanisms to help us consider service areas and move quickly to alternative models.

Christmas and food vouchers

5.3 Over Christmas we provided £30 vouchers to families (one voucher for each child) to enable families to better face the financial pressures of Christmas. In total we were able to support more than 8,000 households with an additional resource to provide an easier Christmas at the end of a hard year. This has been very positively welcomed by our customers with one of our customers saying to us "I can't thank you enough, I have really struggled this year and this will mean so much to my children."

5.4 Our teams across Wheatley proactively undertook other activities to help groups of customers and individuals to have a better Christmas. Examples included:

- Provision of Christmas dinners and goodie bags containing gifts for our customers in the Dunedin Harbour Hostel, supported through funding from the Wheatley Foundation;

- "Festive cheer" packages for some of our West Lothian customers who might benefit the most. These included customers who had no family support or who had recently been bereaved;

- Donations to community groups in various locations to support the delivery of Christmas meals and gifts to vulnerable people;

- NETs staff visited all Livingwell sites to set up and decorate an outdoor Christmas tree;

- Funding from the Wheatley Foundation enabled Christmas celebrations at all of our Care services. This was used in a variety of ways including hot meals, socially distanced quizzes, afternoon tea boxes and gifts such as jigsaws, toiletries and adult colouring books;

- NETs at the Lyoncross depot used money raised from scrap metal uplifts to buy 200 selection boxes for children in the area; and

- Supermarket vouchers continued to be provided through Eatwell. Housing Officers particularly focused on vulnerable new customers and those newly on Universal Credit ("UC") who would not receive a payment before Christmas to ensure they could buy some food.

5.5 The **Emergency Response Fund** has continued to support vulnerable households, with an increase this quarter in requests – assessed and made by frontline staff on behalf of customers - for high-value items, such as white goods and furniture. There was an increase in demand also for B&Q vouchers for vulnerable tenants moving into new properties. More than 6,000 households have been supported over the first three quarters of the financial year.

5.6 **EatWell** has delivered over 28,000 emergency food packages to over 7,500 households, as well as distributing supermarket vouchers to more than 2,200 more customers. Those supported included customers who have lost their jobs, had their incomes cut drastically, been furloughed and/or are awaiting UC payments. The service was targeted - by using frontline knowledge, data and experience- at those who needed it most. These households contained more than 2,000 children.

5.7 Since July, we have moved to offering vouchers rather than food deliveries. Frontline feedback across Wheatley's west, east and south regions confirmed that although food deliveries were welcomed universally, many customers preferred the better choice and more discreet form of support offered by vouchers.

Rent campaign

5.8 Our annual rent campaign was delivered with a more digital focus this year, utilising social media, graphic image files and dialler technology to reach out to more customers as well as our more traditional approaches of writing to particular customer groups and making personal contact over the phone. We focused on promoting digital ways to pay such as Direct Debit and Web Self Service and highlighting the financial benefits and savings to be made by signing up for MySavings. We managed to increase our customers paying by direct debit by almost 900 while web self service registrations increased by 75 over the period of the rent campaign. Despite the impact of the pandemic, we were able to hold the Christmas increase to almost exactly the same level as last year. Encouraging take up of the new Scottish Child Payment was also a key element of the campaign with over 4,800 customers contacted to highlight this and a second phase of contact currently ongoing. This will potentially benefit more than 5,000 children living in Wheatley Group RSL properties who are aged 6 and under.

Letting

5.9 In line with our remobilisation plans we recommenced phase 2 of our lettings plan on 23 August. This involved letting homes that did not have major repairs. We have now also been able to undertake work on many homes with major repairs such as rot works. As a result we returned to a normal level of outstanding voids before Christmas.

5.10 We have clarified the position on lettings and are able to continue what is effectively a business as usual position of letting homes in line with our remobilisation plans. This means that we are focussed on letting our homes to those in housing need – most often homeless households but also others who are in need due to medical priority or other issues.

5.11 Letting continues to take place using safe working procedures for viewings and sign ups. We have reviewed our position on applications to undertake a mutual exchange and will postpone those which are not essential, in line with Scottish Government guidance.

Repairs

5.12 During the lockdown period we have reverted to “Safety First” repairs only. Guidance has been issued to all staff so that they are clear on what repairs can be done. Housing Officers and call centre staff can also use their own judgement to categorise something as essential based on customer circumstances, particularly where the customer is vulnerable.

5.13 We have contacted all customers who had reported a repair prior to lockdown which will now not be done due to restrictions to explain the situation. They will be kept updated by text throughout lockdown where they have this facility. Customers will not have to report the repair again at the end of the lockdown – we will process and book in repairs as soon as we are able to do so. A similar approach is taken for those who now call in to report repairs which are non-essential. Customers have generally been understanding of the situation and have appreciated the fact that we are keeping them up to date.

5.14 Our close working relationships mean that we can respond well to local Covid situations. For example, when Covid cases in Stranraer rose exceptionally quickly between Christmas and New Year we were able to support public health by moving to essential repairs only for that area.

5.15 We are currently developing a text messaging service for those customers in the east and south of the country who require an essential repair. This will provide both them and our operatives with further reassurance during this period. It will advise the customer of what they should do before an operative visits and what we will do. For example, that they should open the windows, wipe down surfaces, wear a mask and wherever possible stay out of the room the operative is working in. Similarly, our staff will be wearing all appropriate PPE and will wipe down surfaces they have touched once they are finished. The West RSLs already operate reminder texts for appointed repairs introduced through the My repairs team.

5.16 In line with Scottish Government guidance that only essential repairs should be carried out inside someone's home, internal capital investment work has been put on hold. Customers who had a planned date for work to start have been contacted and informed of the situation. External investment works continue with appropriate safety procedures in place.

5.17 We continue to monitor our supply chain for repairs and investment following Brexit. So far there have been no major issues but there remains the potential for disruption, particularly around engineered parts which mostly come from Europe.

5.18 We are working through the backlog of medical adaptations which built up during earlier restrictions. Prior to undertaking work, we contact customers to assess with them whether it is appropriate to do the work at this time. This decision will depend on the urgency of the requirement and the ability to do the work while maintaining safe distancing. Some adaptations are crucial in enabling hospital discharge or avoiding admission to care homes and where possible we will always seek to do these projects.

5.19 Where a customer does not wish the work to be done at this stage we will contact them again as restrictions ease to plan the work. After a period of very few applications due to restrictions on occupational therapy assessments, numbers had begun to increase again. However, the new lockdown may reduce this again.

5.20 Repairs to voids continue with safe working practices in place. This supports our letting to households in need in line with the Scottish Government guidance that house moves, while allowed, should only be undertaken where essential.

5.21 Our repairs teams work closely with care staff to ensure that all essential repairs are undertaken safely within our care properties. This includes a recent example where a boiler broke down and was replaced within a day. Care staff ensured all residents were safely housed in temporary accommodation for the duration of the breakdown and were able to liaise closely with repairs staff around progress.

Rental income

5.22 Maintaining our rental income to fund our services and supporting our customers to pay their rent have been key priorities through the pandemic. Housing officers continue to successfully operate our virtual model of support through telephone and digital contact. This has enabled us to provide support and advice to customers at the point they need it most. It has been backed up by easy digital methods to pay which avoid unnecessary contact, with housing officers again providing support to help customers through the process.

5.23 We suspended home visits for rent issues on 5 January in line with lockdown restrictions. However, our housing officers continue to use all other methods to support our customers and collect income. Visits to customers will now only take place where there are acute welfare concerns.

5.24 The 6-month notice period for Notice of Proceedings and evictions has been extended by the Scottish Government until 31 March 2021. We have therefore developed a revised escalation process with a new set of escalation letters. This includes the potential to escalate to Notice of Proceedings where we are satisfied that the household ‘won’t pay’ rather than ‘can’t pay’. This will only be done following a review of each individual case, including an assessment of any covid-19 impact and any potential vulnerabilities

5.25 The escalation process includes clear messaging for customers, stakeholders and staff. This outlines that only customers who repeatedly will not pay rent, have defaulted on an agreed repayment plan and repeatedly failed to engage with us would receive a letter about further action being taken. We will not evict anyone who falls into difficulty as a result of the impact of Covid-19. However, it is important that those who purposely avoid paying their rent understand they are in breach of their tenancy conditions and the consequences of this. We need customers to get in touch with us as quickly as they can so that we can help before the issue gets less manageable.

Staircleaning and environmental services

5.26 The decision was made to suspend staircleaning at the beginning of January. This was done in the light of Scottish Government guidance, the confined space available within stairs which makes it very difficult to distance if anyone needs to pass and the information on the increased transmissibility of the new Covid variant. Customers have been informed of the decision and the reasons for this. We will reinstate these services when it is safe and permissible to do so.

5.27 Wider environmental services continue as normal. These include our concierge and cleaning services within multi-storey flats. Snow clearing and gritting has also been a feature of recent weeks given the weather. We have redesigned our services to allow us to remove over 5,000 tonnes of bulk waste on a monthly basis. This helps to mitigate the risk of fire in our communities given that local authorities have suspended these services.

5.28 The development of the NETs service for DGHP is underway. The NETs team are working closely with DGHP to scope out the service and make plans for delivery. This service is expected to commence by July 2021.

Fire safety, anti-social behaviour, Group Protection

5.29 Across the Group, the number of accidental dwelling fires is down from last year's levels. This is despite the fact that lockdowns and restrictions mean many people are spending more time at home. Fire safety visits for vulnerable households recommenced in the summer as part of our remobilisation plan. Over the last two years the team has visited over 1,000 priority customers providing fire safety products, advice and services and these have played an important role in reducing fires. Visits will continue for vulnerable households during the current lockdown.

5.30 Our fire safety team have continued to undertake fire risk assessments for multi-storey flats and care properties. These will also continue during the current lockdown. The addition of two new members of staff in February will increase our capacity and resilience in this area. The Scottish Fire and Rescue Service has suspended operational assurance visits (block inspections) from January, to ensure that they maintain operational resilience during the lockdown.

5.31 Our Home Safety Team continue to support our most vulnerable customers with safety and security advice and guidance and where relevant home safety pioneering products. This includes support to a number of domestic abuse Multi Agency Risk Assessment Conferences ("MARAC") referrals. Recent innovations include the pilot use of smart doorbells which record activity around the time someone uses the doorbell. The team continue to assess new products as they become available to ensure our customers have access to those which are most useful. Priority access to products has been given to some of our customers who have experienced domestic abuse and this has enabled them to feel safer in their home.

5.32 The Group Protection Team continues its work broadly as normal except that contact with relevant agencies is digital. This ensures that we can deliver preventative and support services for WHG customers who are victims of domestic abuse. We work extensively through our partnership arrangements, participating in MARAC, Multi Agency Tasking And Co-ordination forums ("MATAC") and Disclosure Scheme for Domestic Abuse Scotland ("DSDAS") across a variety of Local Authority Areas. Almost 50% of domestic abuse cases taken through the MARAC process related to our customers. Our work with partner agencies also includes ensuring the appropriate action is taken against perpetrators; this includes delivering preventative and educational services with the aim of stopping the offending behaviour. In some instances, we can move the perpetrator so that the victim can remain in their own home avoiding further disruption

5.33 There is particular concern for the victims of domestic abuse during lockdowns - they may be confined to a home that is not safe, and may have less opportunity to seek out support. Our staff across the Group are well trained on domestic abuse, having been provided with the opportunity to participate in bespoke training developed and delivered jointly by us and National Domestic Abuse Charity Safe Lives. This allows them the knowledge, skills and experience to best support victims and their families, and connect them with our internal Wheatley wraparound support services, or signpost to tailored bespoke Domestic Abuse advocacy support with partners such as ASSIST or Women's Aid.

5.34 The Group Protection team possess a specialist level of knowledge on domestic abuse through their work on the operational forums, and are able to guide and assist staff dealing with complex cases, to work towards achieving the best available options and outcomes for any customer affected and impacted.

5.35 The anti-social behaviour team continues its work through our adapted service model which uses telephone and digital methods of contact wherever possible. This is supplemented by the use of home visits where these are essential. We continue to see an increase in cases recorded. Most are in relation to low level noise and neighbour disturbance that are likely to be directly related to lockdown circumstances. Police Scotland have noted a similar trend in their figures.

Care

5.36 Care services prepared for level 4 restrictions and lockdown by reviewing and enhancing existing processes in services. Processes include:

- Temperature checks;
- Temperature screening recording form;
- Creation of visiting restrictions priority framework;
- COVID visitor's questionnaire;
- Generic risk assessment visits to care homes and houses in multiple occupation;
- Visit procedures (for both indoor and outdoor visits); and
- Contingency plans for poor weather.

5.37 Weekly emergency Covid meetings were carried out to ensure managers were prepared to introduce the tier 4 required adjustments at service level. Contingency plans for staffing are in place at service level.

5.38 In light of the new strain of the coronavirus, we introduced enhanced testing for care home staff on 4 January 2021. We are now using lateral flow testing alongside the PCR testing regime. Staff are now screened for the coronavirus three times a week using a combination of PCR swab tests (one per week), as well as the new lateral flow tests (two per week). Management oversees this testing. The Scottish Government proposes to extend Lateral Flow Testing to staff within sheltered accommodation, adult day centres, care at home and housing support. Confirmation of start dates for this are expected shortly.

5.39 Our procedures have helped maintain a relatively low rate of Covid infection so far. Only 19 of our customers have been diagnosed with Covid and most of these have been in people who live in their home but receive care from us. 21 staff have been diagnosed with Covid in the financial year to date. In line with the rapid rise in infection rates across the country, approximately a third of these cases were in December. None of the staff infections has been acquired at work.

5.40 Staff temperature screening systems continue to operate well in building-based services and staff bases. Standard operating procedures ensure checks are carried out before a staff member starts their shift or enters the building. Staff who exhibit Covid symptoms access medical tests in compliance with Government and Public Health Scotland guidelines and procedures.

5.41 All of our screening and assurance testing processes ensure that during this changing environment, we can continue to provide essential services whilst keeping staff and the people we work for as safe as we can.

5.42 The Scottish Government vaccination programme places frontline care workers in priority level two. The Board has a separate presentation on the detail of this.

Other service highlights

5.43 Housing First continues to be a priority for our teams and we are at the forefront of delivery across Scotland. At the end of December, we had provided 48% of all Housing First lets in Scotland, including 88% of lets in Glasgow and 58% of lets in Edinburgh. Members of our homeless team provided a presentation on our work to Dumfries and Galloway Council who are now looking to pilot the approach. DGHP have committed to providing up to 20 homes for the pilot.

5.44 Reinstatement works continue in the properties at Pyothall Court, Broxburn, which were flooded last Autumn. One of our customers was decanted to a property which already had a wet floor shower and realised how much this helped with daily life. When we discovered this we were able to incorporate this into the reinstatement works at her home so that she will be able to return to something that is even better than when she left.

5.45 The DGHP 24/7 customer call centre went live at the end of November. The initial weekend transition was very successful with little need to contact staff outwith the call centre.

5.46 49 customers moved into our new homes in Milton at the beginning of December. Customers were delighted to be able to move so seamlessly during a pandemic. Our GHA Livingwell project has also completed with the service up and running virtually and customers moving in.

5.47 A particular highlight for Dunedin Canmore in December was the allocation of a home to a homeless customer who had been sofa surfing for 6 years. He was finally able to move his belongings out of the shed they had been stored in, while we were able to arrange to keep the existing white goods in the tenancy so that he did not have to purchase any.

6. Value for money implications

6.1 We continue to work to provide value for money to our customers; prioritising their needs within the constraints of the limitations on staff movement imposed on us.

7. Impact on financial projections

7.1 These are set out in our financial reporting which will continue to be updated as the situation continues.

8. Legal, regulatory and charitable implications

8.1 We have maintained regular dialogue with the Scottish Housing Regulator, and they have appreciated our role, for example, in the housing sector National Resilience Group along with Scottish Government and local authority representatives, and our offer of support to smaller RSLs who may be unable to effectively deliver services in the current conditions.

9. Partnership implications

9.1 We continue to utilise our strong relationships with Scottish Government, local authorities and national agencies to support delivery during the crisis but also to influence planning to the benefit of our customers and services. Each of our Subsidiaries works closely at a local level with third sector organisations to benefit local communities.

10. Implementation and deployment

10.1 Co-ordination of all Group activity continues to be led by the Group CEO and Executive Team.

11. Equalities impact

11.1 None noted.

12. Recommendation

12.1 The Board is asked to note this update.

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: **24 February 2021**

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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 2021; and
- update the Board on the current status of the Group's development programme.

2. Authorising context

2.1 Under the Group Standing Orders and Authorising Framework, 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 Group Board.

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 Board.

4. Background

4.1 In mid-January 2021 the Scottish Government, in conjunction with the Construction Leadership Forum (Chaired by the Minister for Local Government, Housing & Planning) announced an addendum to the construction industry site operating guidance, given the resurgence of Covid-19 infections to introduce a number of enhanced construction site measures that were now considered appropriate. A copy of the addendum is attached at Appendix 1.

4.2 The key enhancements to guidance are summarised below:

1. Review of site arrangements for adequacy

   All existing site arrangements should be reviewed for adequacy, including physical distancing, hygiene, face-covering and ventilation measures. Can the measures adopted be enhanced/improved?

2. Re-induction and reiteration of measures

   All office staff and site operatives, suppliers and other stakeholders whose attendance at site is essential to be re-briefed on enhanced measures.

3. Toolbox talks and other briefings

   Toolbox talks should be given online wherever possible. If this is not possible, then they should be given outdoors, to small groups, in a physically distanced manner, whilst wearing face-coverings. If outdoor briefings are not possible, then briefings should be carried out in a well-ventilated space.

4. Vehicle Sharing

   Companies should require all staff to travel to work individually using their own transport, wherever possible. Companies should provide information on local parking arrangements. Employers should generally not require their staff to share company vehicles in carrying out their work duties. The practice of workers eating together in a car or van at lunchtime should be banned.

5. Working from home

   All work that can be done at home must be done at home. All employers should assess the minimum need for work to be done in office locations and make arrangements to enable work to be done at home.

6. Ventilation

   Employers should consider ways to increase the ventilation in any indoors space in which people have to work – whether in offices or facilities under construction.

7. Face-coverings

   Employers require to carry out task specific risk assessments and provide appropriate PPE if any workers are required to carry out operations at less than 2 metre physical distance. Legislation also requires the wearing of face coverings in canteens and in indoor communal areas. The arrangements have now been extended to anyone:
   - moving around all indoor and outdoor spaces between task / activity locations.
   - working together in any internal space which is not well ventilated.

4.2 We have received reassurance that the contractors and developers we are in contract with across our programme continue to adhere to the initial and now revised construction industry guidance and have a monitoring and reporting regime in place to continue to test the same. Covid-19 compliance is a standing item at all site meetings.

4.3 We currently have 20 live sites across our Group development programme. Since lockdown of construction activity was lifted we have now completed nine projects this financial year and seen a site start in five further projects.

4.4 We continue to assess the overall impact of the pandemic on our programme. The Board will recall the revised development programme for 2020/21 that built in prudent assumptions relating to completions to year end. Our Group annual target for 2020/21 is 475 affordable units. We currently project completions at 455 units. This will be kept under review.

5. Discussion

5.1 Commentary on the development programme, including highlights and exceptions, is provided in Table 1 below. Further detail is also attached at Appendix 2.

Table 1

Dashboard Indicators	Dashboard : Highlights & Exceptions
On site	▪ We have 1,058 units (total development numbers) in the live programme across 20 sites. ▪ Our **largest** project on site is GHA's Sighthill project (198 units). ▪ Our **smallest** project is DGHP Monreith (5 units).
Due on site	▪ We have 462 units due on site across 11 projects. This includes: GHA Carnwadric, WLHP Blackness Rd, Linlithgow and WLHP Winchburgh Plot 'O', that started on site in January 2021 and Loretto Dargavel in early February 2021. ▪ This will bring our total development programme to 1,520 units.
2020/21 Budget v Actual spend	At Period 9 (31 December 2020) our spend across the Group was **£38.8m**, set against our budget of **£86.5m**. At the core of this movement of spend v budget is the later than planned start of a number of projects and the cessation of works as a result of the Covid-19 pandemic. *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.*
Completions to 31 December 2020	To 31 December 2020 we have completed 349 units, against our 2020/21 revised target of 475 units. This includes the completion of the following projects: Cube Westcliff, WLHP Dixon Terrace, DCH Lang Loan, DCH Morrison Crescent, DCH Beaverbank, DCH Greendykes Phase 4, GHA Inglefield, GHA Linkwood and GHA Scaraway.
Engagement Status	We have 10 '**High Engagement**' projects on site. These projects mainly relate to scale of the project (over 70 units) or where the project involves complex ground conditions. All Engie projects remain high engagement.

5.2 The Scottish Government circulated in August 2020 guidance for affordable projects facing additional costs as a result of the pandemic. To date, one cost claim had been approved for additional grant funding by Scottish Government: our Dargavel, Bishopton project for £56,919 being delivered for Loretto Housing by Robertson Partnership Homes. There have been no further projects awarded additional grant funding.

Fire Suppression systems

5.3 Legislation approved by the Scottish Parliament in September 2020 will see changes to the Building Standards, that require the installation of automated fire suppression systems in all new new-build and converted flats and maisonettes, social housing dwellings and shared multi-occupancy residential buildings, where a building warrant is applied for from 1 March 2021.

5.4 We have undertaken an initial assessment of anticipated additional costs for the automated fire suppression system. Headline costs of circa £4,100 per unit (house) and circa £2,300 a unit (flatted accommodation), is the bandwidth on additional construction costs advised. It is important to note that these costs do not include costs associated with changes to the fabric of a building to accommodate the system e.g. if storey heights required to increase. The maintenance obligations require an annual inspection, with maintenance costs of circa £75/£100 per unit. Both contractors and employer's agents have commented on a likely 'suppliers market' that may follow the change to Regulations, before market prices may settle.

Project updates

Engie Regeneration Limited

5.5 We continue to meet Engie on a regular basis, since their decision to pull back from the construction market in Scotland, to closely monitor their performance, staff retention and operational resourcing to complete the three remaining projects that are under contract with GHA:

- Bellrock project (53 units) - is scheduled to complete in March 2021. To date 34 units have handed over with the final 19 units due to be completed in March 2021.
- Auchinlea Road (106 units, 26 of which for Provanhall HA) - is scheduled to complete in July 2021, with 21 units handed over to date.
- Kennishead (48 units) – phased handovers are scheduled to commence from March 2021 and are programmed to complete in July 2021.

DGHP Programme

5.6 As previously reported, three of the four approved DGHP projects are now on site. The fourth project at Nursery Avenue, Stranraer (19 units) has now received Planning consent and awaits Scottish Water technical approval and Roads Construction Consent. A servitude for the site is being finalised with an adjoining owner for the construction of the crib lock walling. Scottish Water has now asked that an alternative to the proposed pumping station is secured. This is currently being progressed, however it is likely to result in a site start being delayed until March 21.

5.7 A tender approval for the DGHP project at Eastriggs, Annan (18 units) will be presented to the Development Committee for consideration at their next meeting in March 2021.

Contractor Financial Exposure

5.8 [paragraphs 5.8-5.14 redacted]

6. Key issues and conclusions

6.1 The first quarter of the year was severely impacted by the pandemic. Over Q2/3 we have seen steady progress on the pace of delivery across our group wide programme. Contractors productivity does continue to be impacted by site operating procedures and where site management or operatives require to self-isolate. Nonetheless, at the end of Q3 our handovers now total 349 units.

6.2 Scottish Government has signalled in a number of our recent programme meetings the intention to review the affordable housing Grant subsidy benchmarks during 2021. The Scottish Government plans to convene a working group to oversee the review and the Group is seeking to be represented.

6.3 We have maintained our meetings with contractors where financial exposure is greatest and will agree with Keepmoat Homes a frequency of meetings that reflects the risk profile on this project.

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 2020/21 Business Plan reforecast resulted in a reduction to expected completions for 2020/21 of 191 units versus the originally approved 2020/21 Business Plan; to our revised completions target of 475 units.

8.2 The reforecast generally assumed our first handovers this year would be throughout the August/September period with 245 units handed over to 30 September 2020, ahead of our revised forecast. Whilst we are currently projecting a shortfall on completions of 20 versus the revised full year target of 475, the impact of the earlier handovers through the summer has helped mitigate the full impact on rental income.

8.3 The updated 2021/22 financial projections are presented to the Board under separate cover.

Development Fund

8.4 The 2021/22 Business Plan includes an allocation to the development fund of £1.6m, available over the next five years

8.5 To date no amounts have been drawn from the development fund. We will continue to report to Group Development Committee on the proposed utilisation of the fund and as and when approval is given for use of the fund.

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 TMDF powers, namely Glasgow and Edinburgh. We continue to be in contact with our key local authority partners both in relation to programme planning requirements and in the preparation of individual projects seeking grant approval.

10.2 We also remain engaged with a broad range of private developers, housebuilders, and land agents to seek to put ourselves into a position to exploit any development opportunities as they may emerge.

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. Recommendations

13.1 The Group Board is asked to note the report.

Appendices

Appendix 1 - Construction Industry site operating guidance – addendum
Appendix 2 - Period 9 performance dashboard

Construction Scotland
Working on site during the COVID-19 pandemic: Construction Guidance
Advance addendum no. 1: 11th January 2021

Introduction

In view of the current resurgence of Covid-19 infections and the identification of a new strain of COVID-19 that is more transmissible, Construction Scotland has reviewed its Site Operating Guidance and has identified a number of areas where additional measures now seem appropriate for construction businesses to take.

These measures will be incorporated in a revision of the Guidance but, in view of the urgency of the situation, we have decided to publish a summary of the principles as an Advance addendum, to be read in conjunction with the existing Guidance document.

Review of site arrangements for adequacy

All existing site arrangements should be reviewed for adequacy, including physical distancing, hygiene, face-covering and ventilation measures. Are the measures in place still appropriate for the site population and the nature of the work environment? Can the measures adopted be enhanced/improved? Is additional monitoring resource required?

Re-induction and reiteration of measures

All office and site arrangements to be re-briefed to staff and operatives, along with suppliers and other stakeholders whose attendance at site is essential to delivery of the project, taking note of the following enhanced measures:

Toolbox talks and other briefings

Whilst toolbox talks and daily briefings are essential tools for communicating measures and gaining feedback from site staff and operatives, it is becoming increasingly apparent that transmission risk increases in conditions where people gather in enclosed spaces and speak loudly to one another. For this reason, briefings (such as toolbox talks) should be given on-line wherever possible. If this is not possible, then they should be given outdoors, to small groups, in a physically distanced manner, whilst wearing face-coverings.

If outdoor briefings are not possible, then briefings should be carried out in a well-ventilated space and all those present must maintain physical distancing and wear face-coverings. Hand hygiene should be maintained, and the briefing be as short as possible.

Vehicle Sharing

Car and vehicle-sharing is proving to be a high-risk situation for virus transmission. Companies should require all staff to travel to work individually using their own transport, wherever possible. Companies should provide information on local parking arrangements and consider the potential need for increased facilities.

Car or vehicle sharing between members of the same or extended households is acceptable.

Employers should generally not require their staff to share company vehicles in carrying out their work duties. This may mean taking multiple vehicles to a work site. Any exception must be supported by a situation-specific risk assessment undertaken using ALARP principles and including the known risk of transmission in vehicles.

The practice of workers eating together in a car or van at lunchtime should be banned. Mobile welfare units must maintain physical distancing, hand hygiene and ventilation in accordance with guidelines.

Working from home

In accordance with Scottish Government regulations, all work that **can** be done at home **must** be done at home. This applies as much to individual site offices as to head and regional offices. All employers should assess the minimum need for work to be done in office locations and make arrangements, including providing equipment where reasonable, to enable work to be done at home.

Ventilation

It is clear that increased ventilation can have an impact on reducing the risk of transmission and Employers should continue to consider ways to increase the ventilation in any indoors space in which people have to work – whether in offices or facilities under construction. Ventilation can be provided simply by opening windows or doors or by mechanical means.

Reference should be made to Scottish Government guidance on ventilation for further information on how this can be used to help reduce the risk of transmission.

Face-coverings

The Construction Scotland Guidance requires all Employers to carry out task specific risk assessments and provide appropriate PPE (including RPE) if any workers are required to carry out operations at less than 2 metre physical distance.

Legislation introduced by the Scottish Government also requires the wearing of face-coverings in canteens (unless seated or eating/drinking) and in indoor communal areas such as passageways, stairs, lifts, staff rooms, training rooms, changing rooms or entrances, unless there are measures in place to *"keep that person separated from any other person by a partition **or a distance of at least 2m**".*

The increased risk of infection now being reported, the possibility of accidentally breaching social distancing measures that are not physical, and the risks from aerosol transmission in enclosed spaces occupied for extended periods means it is now appropriate to extend the wearing of face-coverings to anyone:

- moving around all indoor and outdoor spaces between task / activity locations.
- working together in any internal space which is not well ventilated (either naturally or mechanically) for protracted periods of over an hour.
- working together in an internal space which is not well ventilated (either naturally or mechanically) for any period where raised voices or physical exertion is required

All regardless of social distancing measures and subject to the exemptions listed in the regulations

Cleaning

Regular cleaning of common use touchpoints such as door handles, handrails, taps, etc, ongoing throughout the working day, should continue to form part of the protective measures being implemented on sites and in offices during this period.

Updating of the Site operating Guidance

The Site Operating Guidance will be updated, where necessary, to reflect the enhanced guidance contained in this advance addendum.

R Fraser version 1.0: 11th January 2021

22/01/2021 11:23:48

RSLs in this update:
- [x] Select all
- [x] Cube
- [x] DC
- [x] DGHP
- [x] GHA
- [x] Loretto
- [x] WLHP

projects on site:
20

largest project:
198

smallest project:
5

completed this FY:
349

anticipated this FY:
455

Click below for options to export to pdf/powerpoint

P09 Development Update

22 January 2021

- Completions Summary
- 100% Completed
- Partial Completions
- Board approved but not yet on site

Completions Summary

22/01/2021 11:23:48

Financial Year

2020/2021

Actual Completions

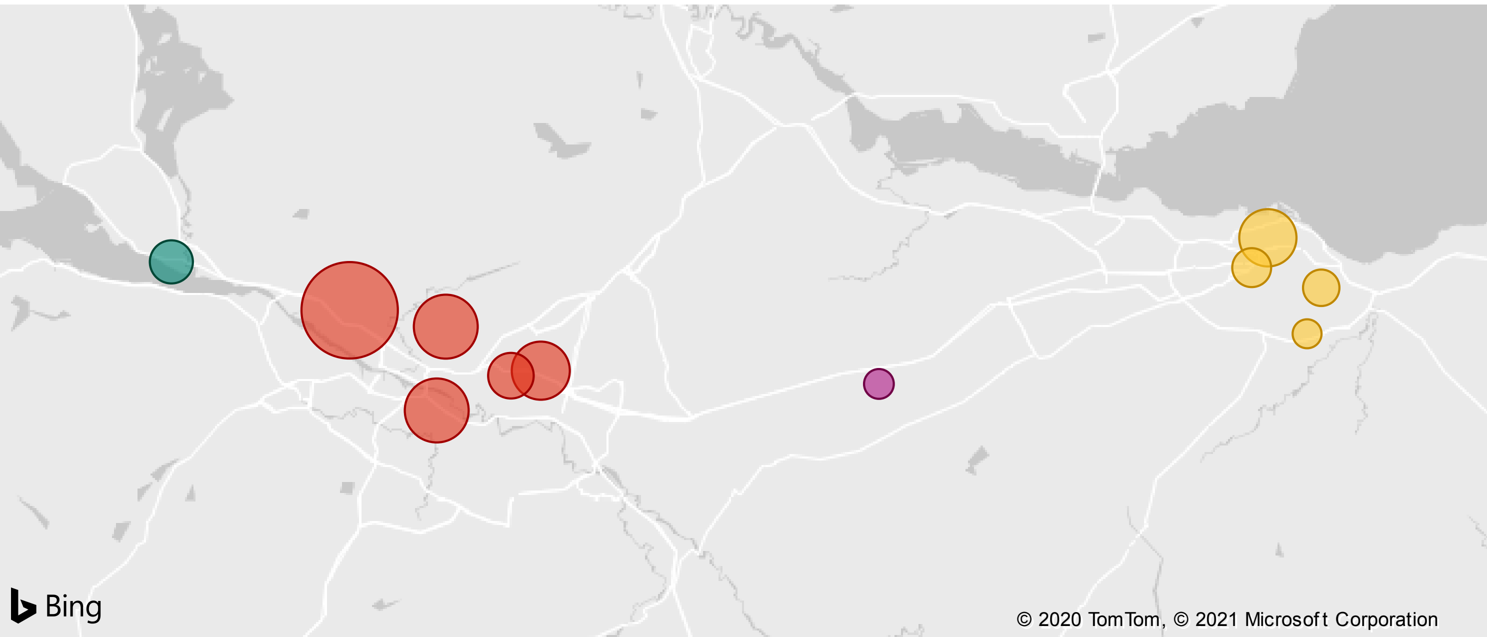
Sub	MMR	SR	Total
Cube		24	24
DC	35	48	83
GHA	49	185	234
WLHP		8	8
Total	84	265	349

Projected to Year End

Sub	MMR	SR	Total
Cube		24	24
DC	35	58	93
DGHP		5	5
GHA	60	265	325
WLHP		8	8
Total	95	360	455

Business Plan Target

Sub	MMR	SR	Total
Cube		24	24
DC	35	48	83
GHA	49	311	360
WLHP		8	8
Total	84	391	475



Completions this FY ● Cube ● DC ● GHA ● WLHP

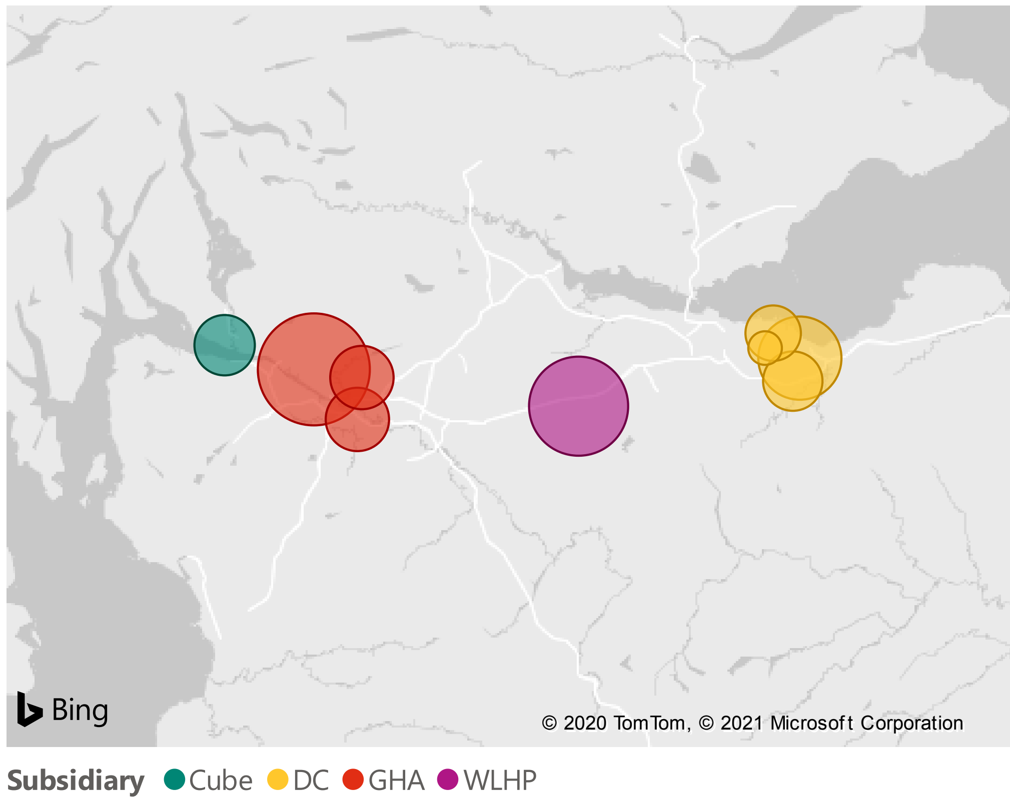
Anticipated in 20/21

Sub	Projected to Year End	BP Target	Variance
Cube	24	24	0
DC	93	83	10
DGHP	5	0	5
GHA	325	360	-35
WLHP	8	8	0
Total	455	475	-20

Projects 100% completed in this Financial Year

22/01/2021 11:23:48

Project	2018/2019	2019/2020	2020/2021	Total
Beaverbank			41	**41**
Dixon Terrace		77	8	**85**
Fountainbridge Block L			19	**19**
Greendykes AH3 Phase 4	7	46	16	**69**
Inglefield Street			49	**49**
Lang Loan		38	7	**45**
Linkwood, Airgold		10	88	**98**
Scaraway Street			49	**49**
Westcliff / Talisman		22	24	**46**
Total	**7**	**193**	**301**	**501**



Partial Completions on Active Sites

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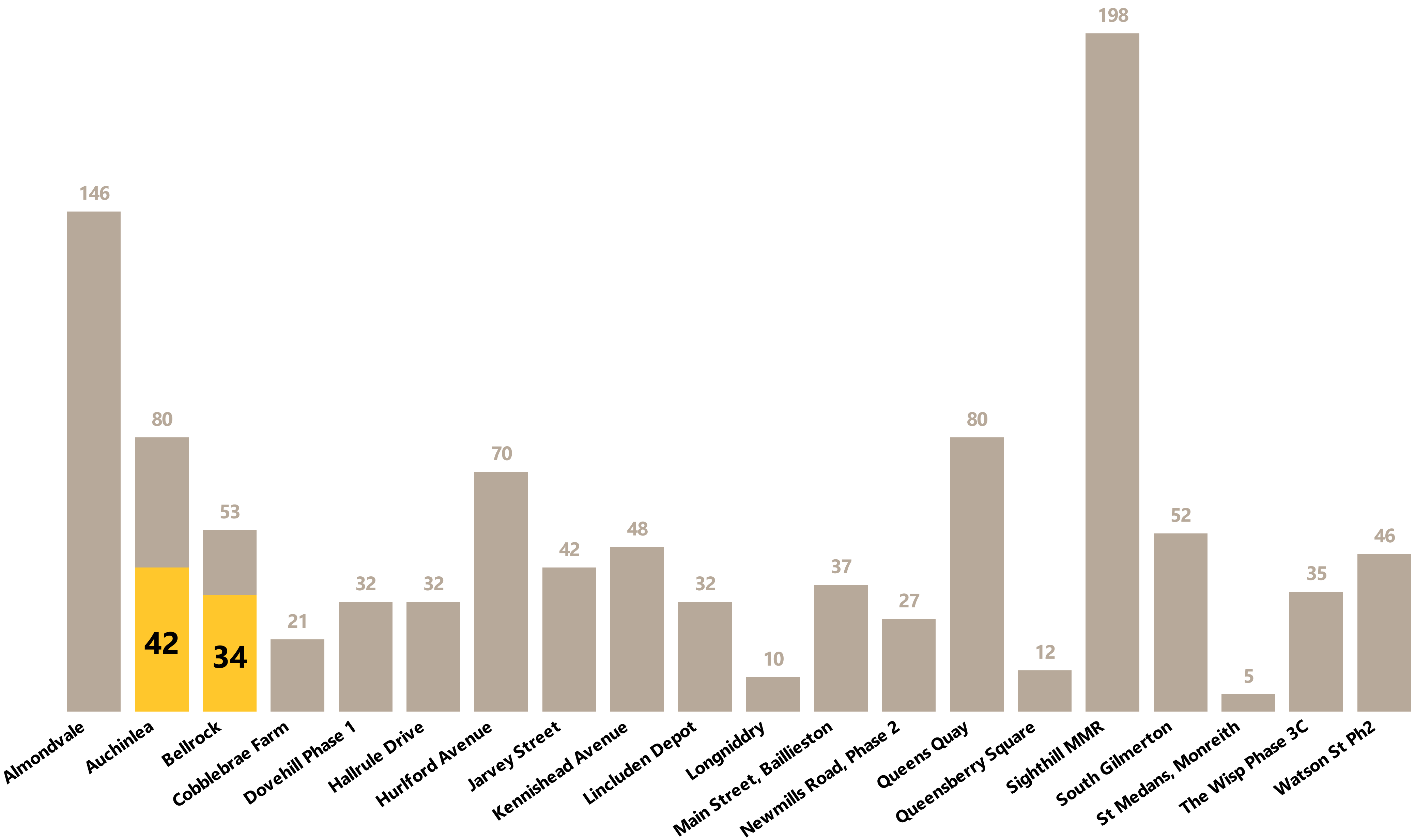


no. of projects

20

total units

1,058

completed to date

76

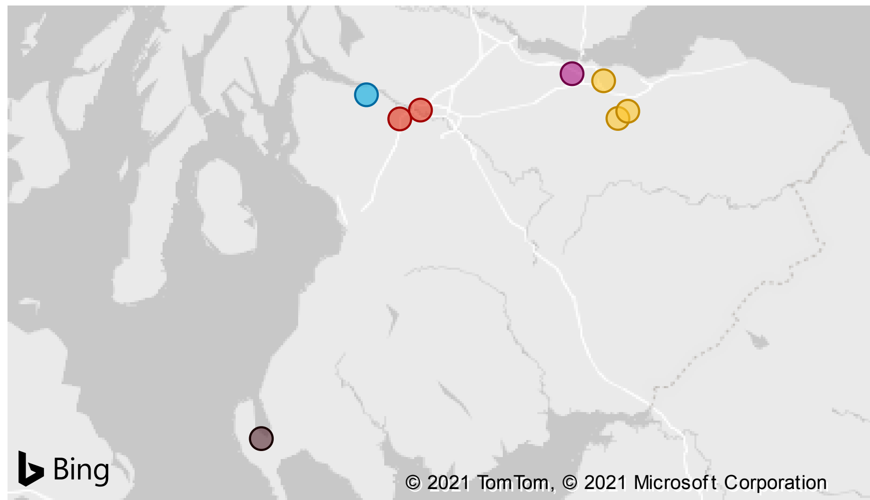
Approved Projects, not yet on site

22/01/2021 11:23:48

Subsidiary	Project	Total Units	Board Approval Date	Planned Site Start	Grant	Planning	Building Warrant	RCC	Scottish Water	Stopping Up
GHA	Calton Village Ph1	123	August 2020	March 2021						
GHA	Damshot Crescent	26	May 2020	March 2021						
Loretto	Dargavel Village	58	October 2019	February 2021						
DGHP	Nursery Avenue	19	June 2020	February 2021						
DC	Penicuik	57	November 2020	March 2021						
DC	Roslin	38	November 2020	March 2021						
DC	Rowanbank	33	November 2020	August 2021						
WLHP	Winchburgh BB	85	November 2020	May 2021						

Site Start in P10

Subsidiary	Project	Total Units
WLHP	Blackness Road, Linlithgow	14
GHA	Carnwadric Rd / Hopeman Rd	22
WLHP	Winchburgh Site 'O'	20



Subsidiary DC DGHP GHA Loretto WLHP

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: 24 February 2021

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1. Purpose

1.1 To seek 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 Group Board. In relation to the development programme, this includes the geographical areas in which we operate.

2.2 The responsibility governance oversight of the development programme and the approval of new projects rests with the Development Committee, in line with the Committee's terms of reference approved by the Group Board.

2.3 The five year development programme to 2025/26 was approved by the Group Development Committee on 4 February 2021. The RSL programmes were presented to and agreed by respective developing RSL Boards in the February 2021 cycle of meetings. No changes were proposed by any of the Baords to what was agreed by the Grouo Development Committee.

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 almost 800 units per annum. Our development programme represents a significant element of the Group's expenditure, in the form of borrowing to fund construction. In the coming year we anticipate spend of over £100m, inclusive of Grant funding, on the development programme.

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. To mitigate this risk we have brought together a strong programme of named sites in the proposed five year programme. In addition, we have a further 'lifeboat' list of additional sites, that are subject to regular dialogue with local authorities, housebuilders and developers.

3.5 A further headline risk is grant availability. This is a major focus for all developing RSLs and Local Authorities. It will be late February 2021 before the Transfer of Management of Development Funding ("TMDF") budgets for City of Edinburgh and City of Glasgow are confirmed.

3.6 Based on recent announcements by the Scottish Government in their Infrastructure Investment Plan it is the intention to agree a budget of £3.3bn for the Affordable Housing Supply Programme to 2025/26. Details of this and implications across our operational Local Authority areas remain to be confirmed.

4. Background

4.1 Over the period from 2014/15 (to December 2020) we have completed 4,036 new affordable homes. Our current Group business plan assumes we will complete **3,553** units of RSL affordable housing new supply units over the next five financial years from 2021/22, with up to a further **370** of mid-market rent housing to be directly delivered by Lowther Homes in Glasgow. This gives us a total development programme of **3,923** units in the period to 2025/26.

4.2 Table 1 below sets out the breakdown of the planned east, west and south programmes. Table 2 sets the programme by RSL. Table 3 summarises the programme of directly developed mid-market rent housing that will be taken forward by Lowther Homes in Glasgow. Table 4 summarises the entire Group programme by tenure.

Table 1 – East, West and South RSL programmes

Team	21/22	22/23	23/24	24/25	25/26	Total
East	241	275	272	372	284	1,444
West	385	255	316	277	66	1,299
South	49	47	112	257	345	810
						3,553

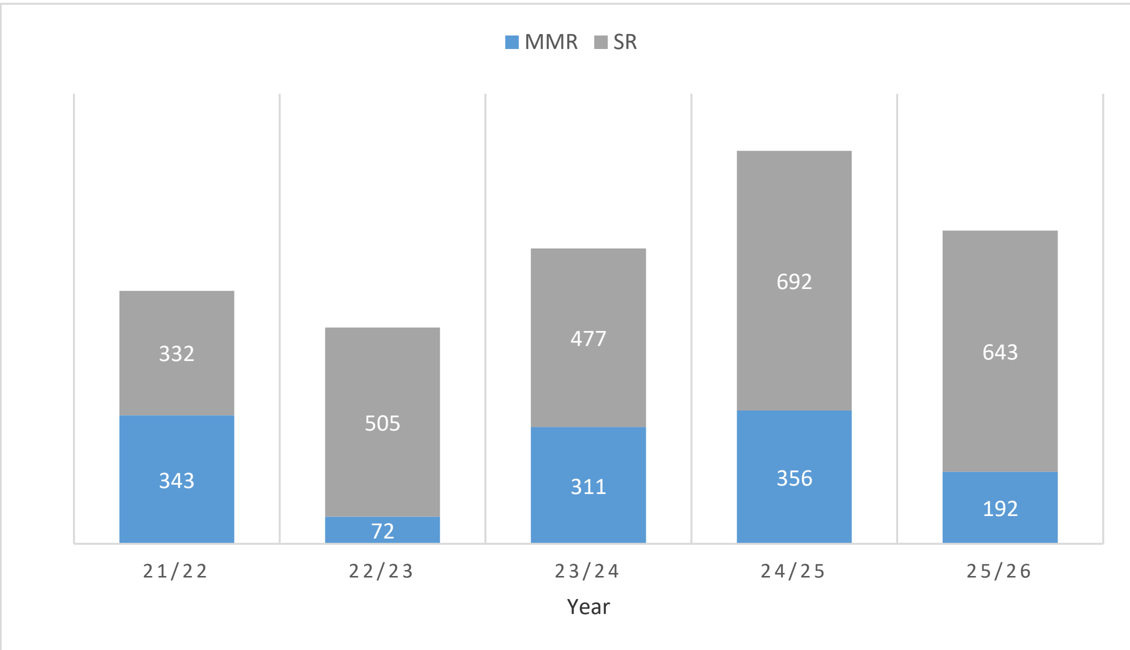
Table 2 – programme by RSL

RSL	21/22	22/23	23/24	24/25	25/26	Total
Cube	0	78	76	69	16	239
DC	79	162	208	160	222	831
GHA	385	116	147	178	50	876
Loretto	0	61	93	30	0	184
WLHP	162	113	64	212	62	613
DGHP	49	47	112	257	345	810
						3,553

Table 3 – Lowther Homes MMR programme in Glasgow

Lowther Homes	21/22	22/23	23/24	24/25	25/26	Total
			88	142	140	**370**

Table 4 – Group programme by tenure



5. Discussion

Development Footprint

5.1 Our future development pipeline is shaped by our understanding of the regeneration and housing development opportunities that are currently agreed, or may emerge, in our operational Local Authority areas. For the Group RSLs this continues to be driven by the respective Local Authority housing strategy and the Strategic Housing Investment Programme that flows from it.

5.2 The Group Board in February 2020 when approving the five year development programme agreed that:

- we maintain the overarching East, West and now South programmes;
- Cube and Loretto development programmes should focus outside the City of Glasgow in the surrounding local authorities;
- DCH to continue to be the principal developer in the City of Edinburgh and the Lothians;
- WLHP should retain its development footprint in West Lothian only; and
- GHA will be our principal developer in the City of Glasgow.

5.3 [redacted]

5.4 The planning of our programme involves discussions with the respective local authorities, Scottish Government More Homes Division, in addition to signalling of our interest in these areas to our network of national house builders and private sector developer contacts.

<u>DGHP Programme</u>

5.5 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. We now estimate that 810 new social rent homes can be completed in the period to 2025/26. We continue to take forward our plans in the region with our key strategic partners, principally Scottish Government and Dumfries & Galloway Council, and have an outline programme of over 1,000 units.

5.6 This includes a significant proportion of assumed re-provisioning in Lochside, Dumfries regeneration area and a more modest level of re-provisioning being proposed in Annan and Stranraer. The regeneration of DGHP's stock is a key priority for Dumfries & Galloway Council ("DGC") and is anticipated to form a substantial part of our onward programme in the next 5 years. It is anticipated that the DGHP Board will consider a report in Q1 2021 that will present details of our ongoing stock appraisal process and consider recommendations on stock classification decisions. The approved DGHP Business Plan has capacity for up to 350 demolitions over the life of the plan.

5.7 We continue to work through our appraisal of a number of challenging legacy sites in the DGHP programme. This has involved recent strategic engagement with both Scottish Government and DGC to advise on high probable development costs for a number of the proposed projects, that could only be viable with above benchmark grant awards.

5.8 This is understood by our partners who have indicated their desire to work with us to deliver the projects. Where it is the case that the appraisal takes us to a patently uneconomic position, even allowing for above benchmark grant funding, then it may be we require to step back from a proposed project. Our partners agree with this approach. There is at least one DGHP site where we think that is a likely scenario.

5.9 We continue to plan on the basis of the wider constraints that will be faced in implementing our South programme, namely: careful consideration of housing need and demand, lower rents, limited contractor capacity, likelihood of significant prelim costs in more rural areas and a number of challenging legacy development sites alongside the availability of grant to support our ambitious programme.

Development appraisal criteria

5.10 As part of our development governance arrnagements we agreed overarching criteria that forms the basis for assessing new development opportunities. The criteria provide the paramaters within which projects are included in 5 year development programes and the Group Developnent Committee agree project aprovals. The criteria are set out below:

Criteria	Measure/Test
Local Housing Strategy	Contribute to the Local Housing Strategy ("LHS") 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 5.7% over 30 years, other than in DGHP which is 35 years *(as agreed by Group Board in September 2020).*
Debt	Borrowing required would not exceed total assets.
Borrowing	Borrowing will be repaid within 30 years and in DGHP within 35 years.
Valuation Growth	Projects will be valuation positive on our balance sheet and assumed to deliver valuation growth within 3 years.

5.11 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

5.12 Attached at Appendix 1 is the Group five year Development Programme. The Group wide programme is aggregated up from our RSLs and Lowther Homes five-year programmes. The summary information attached sets out our five year development programme by RSL subsidiary and Lowther Homes by tenure.

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 us being a key delivery partner for Scottish Government in the provision of new supply affordable housing.

6.2 The pandemic has impacted signifcantly on our development programme in late 2019/20 and across 2020/21. The cessation of construction activity during the initial lockdown, followed by new procedures agreed between the construction industry and the Scottish Government for safe site operations, has enabled construction activity to continue but productivity has been impacted. We have taken on board remaining uncertainty linked to the pandemic when considering the planning and business plan implications of the Group five year programme.

6.3 The national Infrastructure Investment Plan, announced by the Scottish Government, proposes that funding for new affordable housing will continue to be a priority beyond 2021, with a headline budget of £3.3bn. It will be late February before details of TMDF resource alocations for Glasgow and Edinburgh are confirmed and the resource allocations for the Local Authorities in our operating areas. Full details of the national funding for housing will not be clear until after the Scottish Parliamentary elections in May 2021.

6.4 The Scottish Government has also confirmed its intention to review grant sudsidy arrangements. A short life working group is in the process of being established with meetings due to commence from March 2021. The Group is actively working to be represented on the working group.

7. Value for money implications

7.1 Coninued use of both our Group contractor framework, and where appropriate access to external contractor frameworks, combined with seeking to extend our developer partnerships for land led opportunities, should continue to offer the Group a significant programme of development.

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 a net cost of RSL development of almost £300m over the next five years, in addition to Lowther Homes net development costs assumed of £[redacted]. The successful delivery of the development programme helps us realise the wider assumptions within our Group 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 governance arrangements that oversee the development programme.

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, East Dunbartonshire) with local authorities and identify potential opportunities to increase the number of tangible opportunities we can consider for our future 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 continue to 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 presentation of the respective development programme was presented to each RSL Board in the February 2021 cycle of meetings and is planned to the Lowther Board next meeting in May 2021.

List of Appendices:

Appendix 1 – Group five year development programme.

Wheatley Group

Making homes and lives better
wheatley-group.com

Group Five Year Development Programme

Group Board
24 February 2021

Five Year Plan

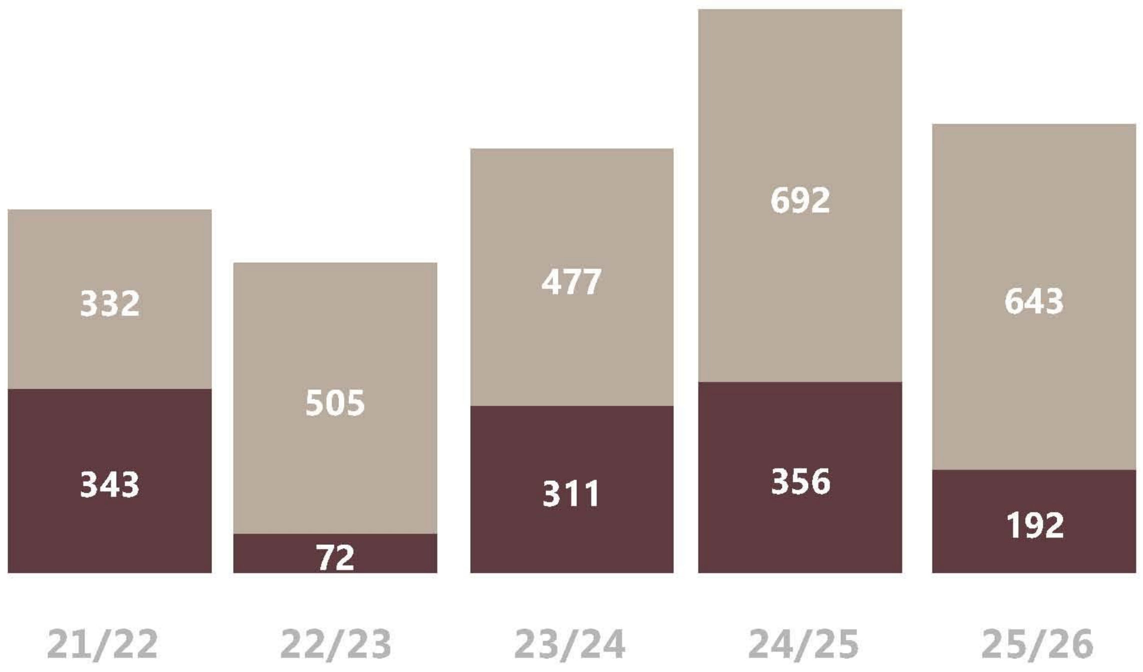
78
Projects

3,923
Units

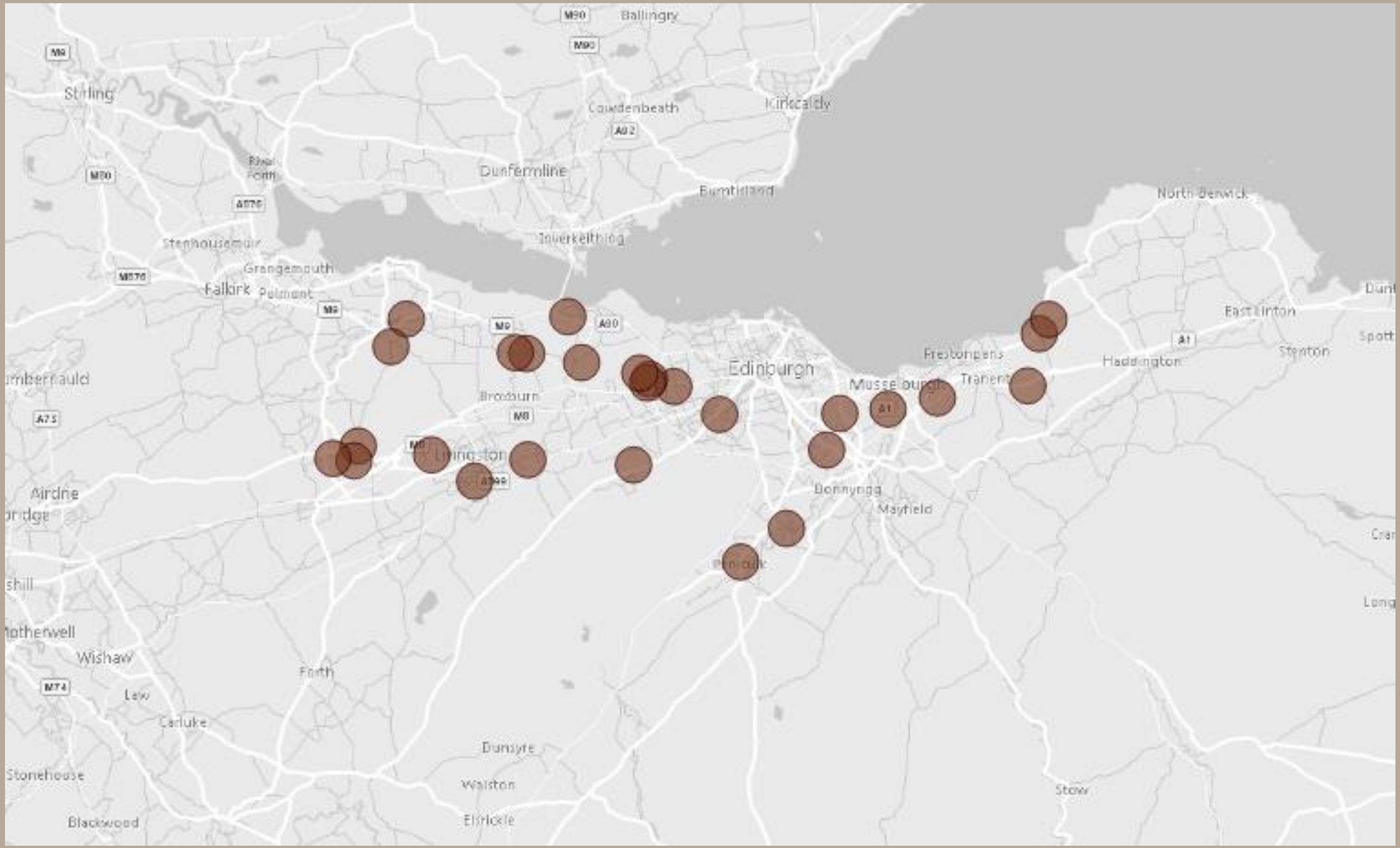
2,649
Social Rent

1,274
Mid Market Rent

Team	21/22	22/23	23/24	24/25	25/26	Total
East	241	275	272	372	284	1,444
West	385	255	316	277	66	1,299
South	49	47	112	257	345	810
West (Lowther)			88	142	140	370
Total	**675**	**577**	**788**	**1048**	**835**	**3,923**



East Programme



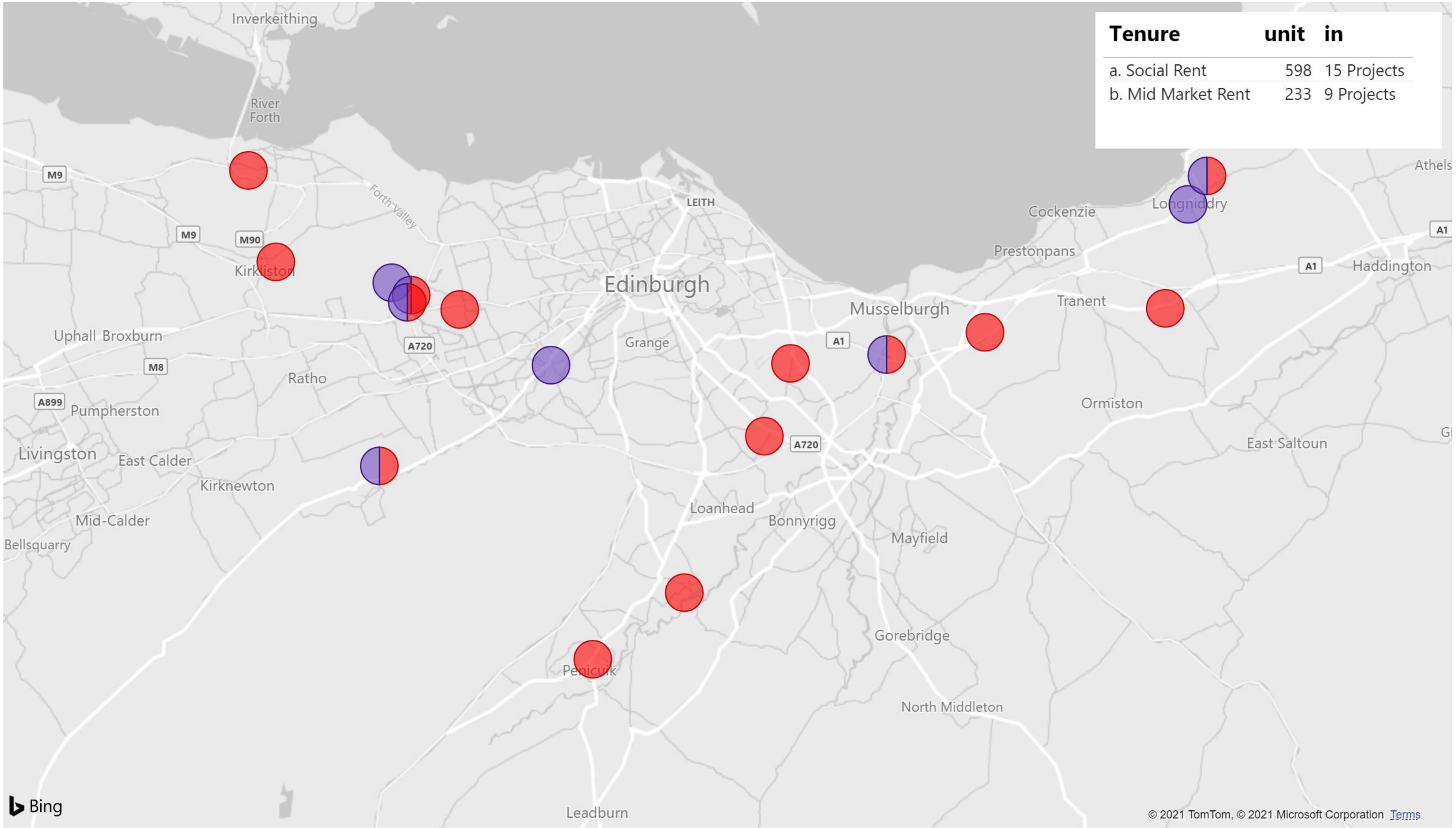
Programme

- Cube
- DC
- DGHP
- GHA
- Loretto
- Lowther
- WLHP

FY of Comp	Project	Area	Prev. Year	SR	MMR	21/22	22/23	23/24	24/25	25/26	Total
21/22	Longniddry	East Lothian		0	10	10					10
21/22	Newmills Road, Phase 2	Balerno		12	15	27					27
21/22	South Gilmerton	Gilmerton, Edinburgh	10	42	0	42					42
22/23	Penicuik	Midlothian		57	0		57				57
22/23	Roslin	Midlothian		38	0		38				38
22/23	Rowanbank	Edinburgh West		33	0		33				33
22/23	The Wisp Phase 3C	Edinburgh East		34	0		34				34
23/24	Kirkliston	Edinburgh West		22	0			22			22
23/24	Lanark Road, Edinburgh	Slateford		0	12			12			12
23/24	MacMerry	East Lothian		36	0			36			36
23/24	Wallyford Ph2	East Lothian		46	14			60			60
24/25	West Craigs Phase 1 (Plot 4)	Edinburgh West		78	80			78	80		158
25/26	Buileyeon Road Phase 1	Queensferry		30	0					30	30
25/26	Craighall Phase 2	Edinburgh East		20	18				18	20	38
25/26	Longniddry Ph2	East Lothian		20	20					40	40
25/26	Wallyford Ph3	East Lothian		40	0					40	40
25/26	West Craigs Phase 2 (Plot 5)	Edinburgh West		90	52				62	80	142
25/26	West Craigs Phase 3 (Plot 13)	Edinburgh West		0	12					12	12
Total			**10**	**598**	**233**	**79**	**162**	**208**	**160**	**222**	**831**

Dunedin Canmore

- Cube
- DC
- DGHP
- GHA
- Loretto
- Lowther
- WLHP



Tenure	unit	in
a. Social Rent	598	15 Projects
b. Mid Market Rent	233	9 Projects

a. Social Rent b. Mid Market Rent

Dunedin Canmore

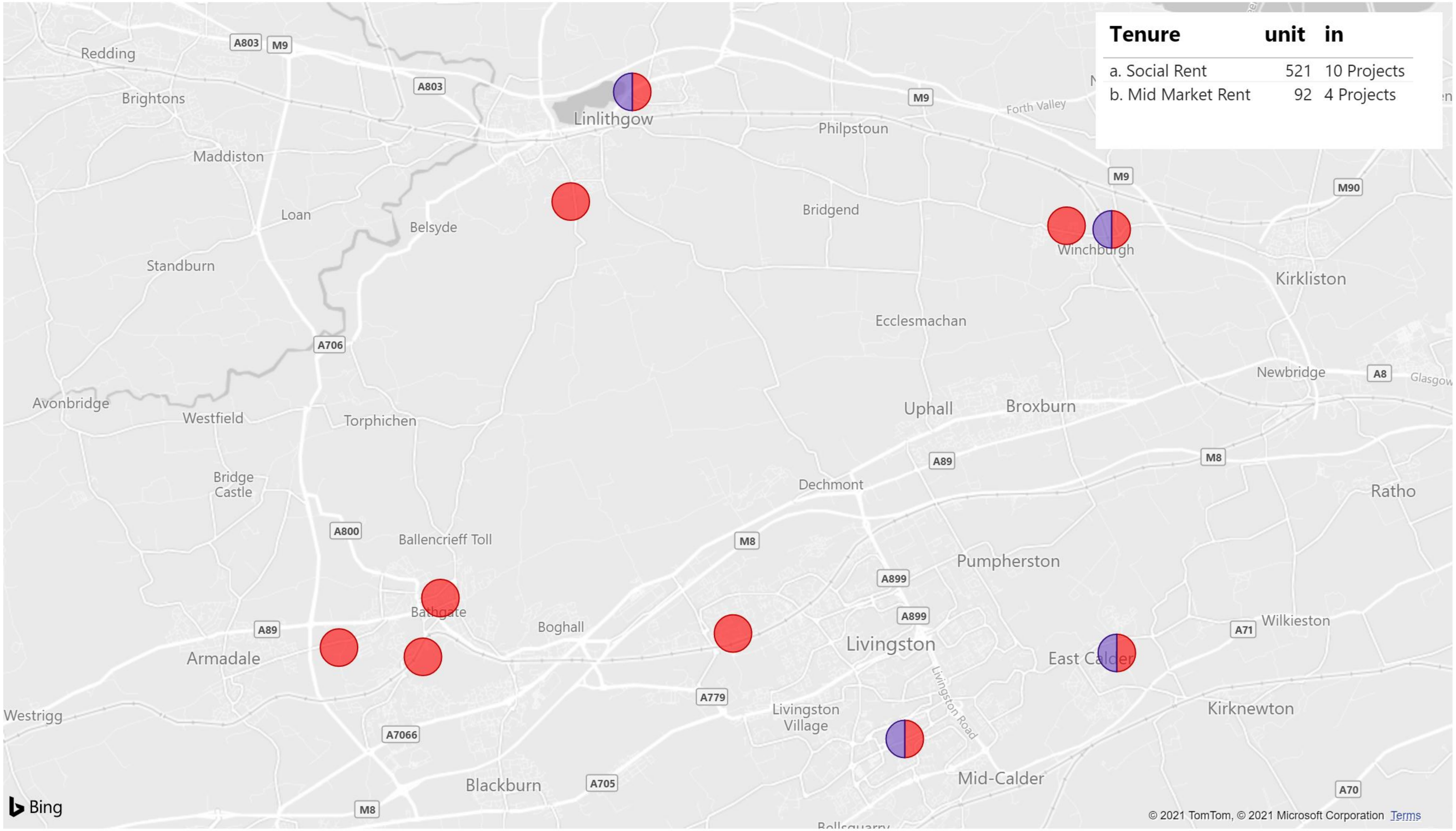
Programme

- Cube
- DC
- DGHP
- GHA
- Loretto
- Lowther
- WLHP

FY of Comp	Project	Area	Prev. Year	SR	MMR	21/22	22/23	23/24	24/25	25/26	Total
21/22	Jarvey Street	Bathgate		42	0	42					42
22/23	Almondvale	Livingston		120	26	120	26				146
22/23	Blackness Road, Linlithgow	Linlithgow		8	6		14				14
22/23	Preston Farm	Linlithgow		15	0		15				15
22/23	Sibbalds Brae	Bathgate		38	0		38				38
22/23	Winchburgh Site 'O'	Winchburgh		20	0		20				20
24/25	Linkston Road	Bathgate		62	0				62		62
24/25	Raw Holdings	East Calder		38	26				64		64
24/25	Winchburgh BB	Winchburgh		51	34			64	21		85
25/26	Deans South, Livingston	Livingston		127	0				65	62	127
Total				**521**	**92**	**162**	**113**	**64**	**212**	**62**	**613**

WEST LOTHIAN Housing Partnership

- Cube
- DC
- DGHP
- GHA
- Loretto
- Lowther
- WLHP

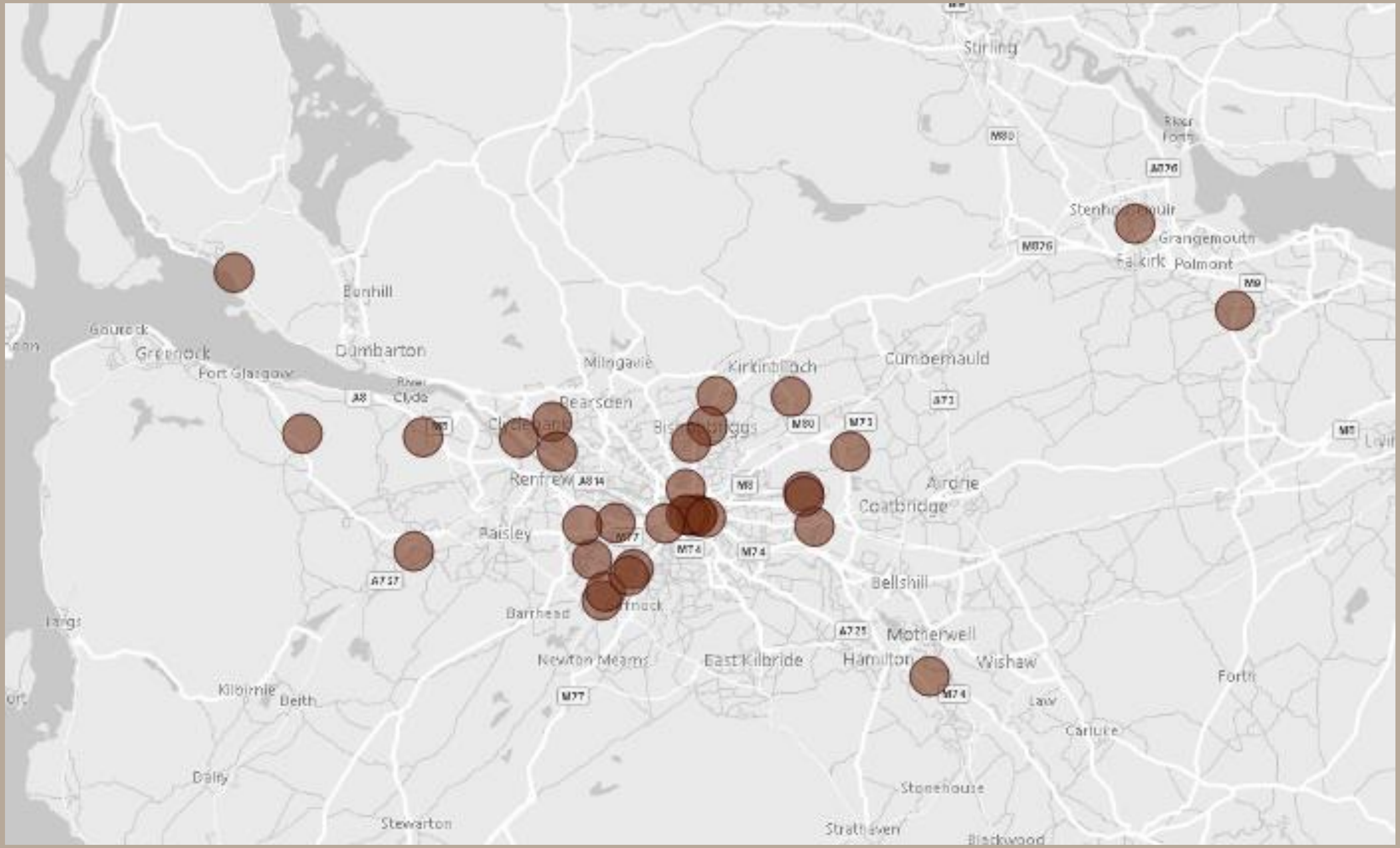


Tenure	unit	in
a. Social Rent	521	10 Projects
b. Mid Market Rent	92	4 Projects

● a. Social Rent ● b. Mid Market Rent

WEST LOTHIAN Housing Partnership

West Programme



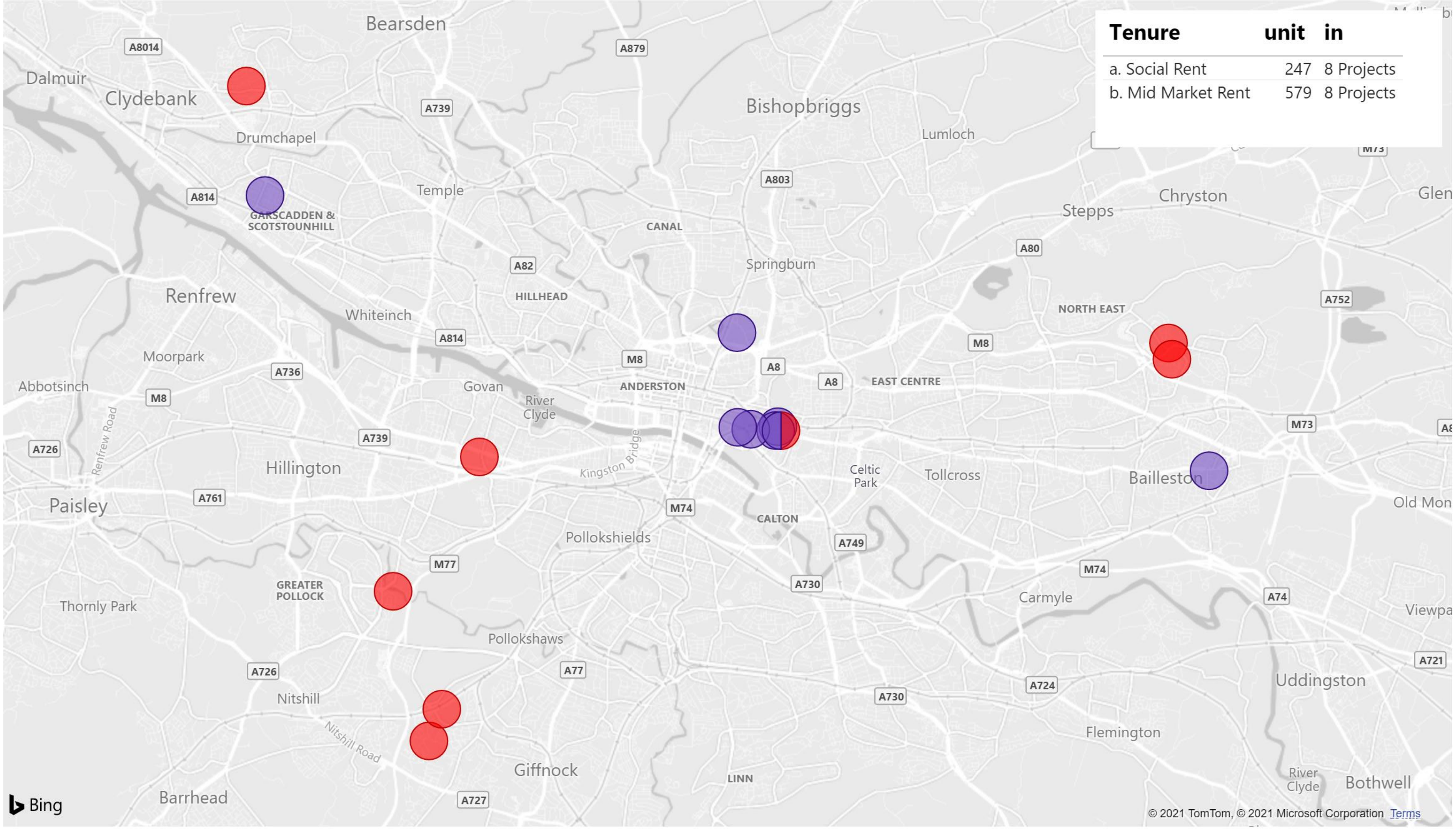
Programme

- Cube
- DC
- DGHP
- GHA
- Loretto
- Lowther
- WLHP

FY of Comp	Project	Area	Prev. Year	SR	MMR	21/22	22/23	23/24	24/25	25/26	Total
21/22	Auchinlea	Easterhouse	57	23	0	23					23
21/22	Carnwadric Rd / Hopeman Rd	Carnwadric		22	0	22					22
21/22	Dovehill Phase 1	Calton		0	32	32					32
21/22	Hurlford Avenue	Garscadden		0	70	70					70
21/22	Kennishead Avenue	Kennishead		48	0	48					48
21/22	Main Street, Baillieston	Baillieston	25	0	12	12					12
21/22	Watson St Ph2	Merchant City		0	46	46					46
22/23	Damshot Crescent	Old Pollok		26	0		26				26
22/23	Sighthill MMR	Sighthill		0	198	132	66				198
23/24	Calton Village Ph1	Calton		0	123			123			123
23/24	Shandwick / Arnisdale	Easterhouse		48	0		24	24			48
24/25	Albion	Ibrox		80	0				80		80
24/25	Calton Village Ph2	Calton		0	98				98		98
27/28	Wyndford	Maryhill		50	0					50	50
Total			**82**	**297**	**579**	**385**	**116**	**147**	**178**	**50**	**876**

GHA

- Cube
- DC
- DGHP
- GHA (selected)
- Loretto
- Lowther
- WLHP



Tenure	unit	in
a. Social Rent	247	8 Projects
b. Mid Market Rent	579	8 Projects

● a. Social Rent ● b. Mid Market Rent

GHA

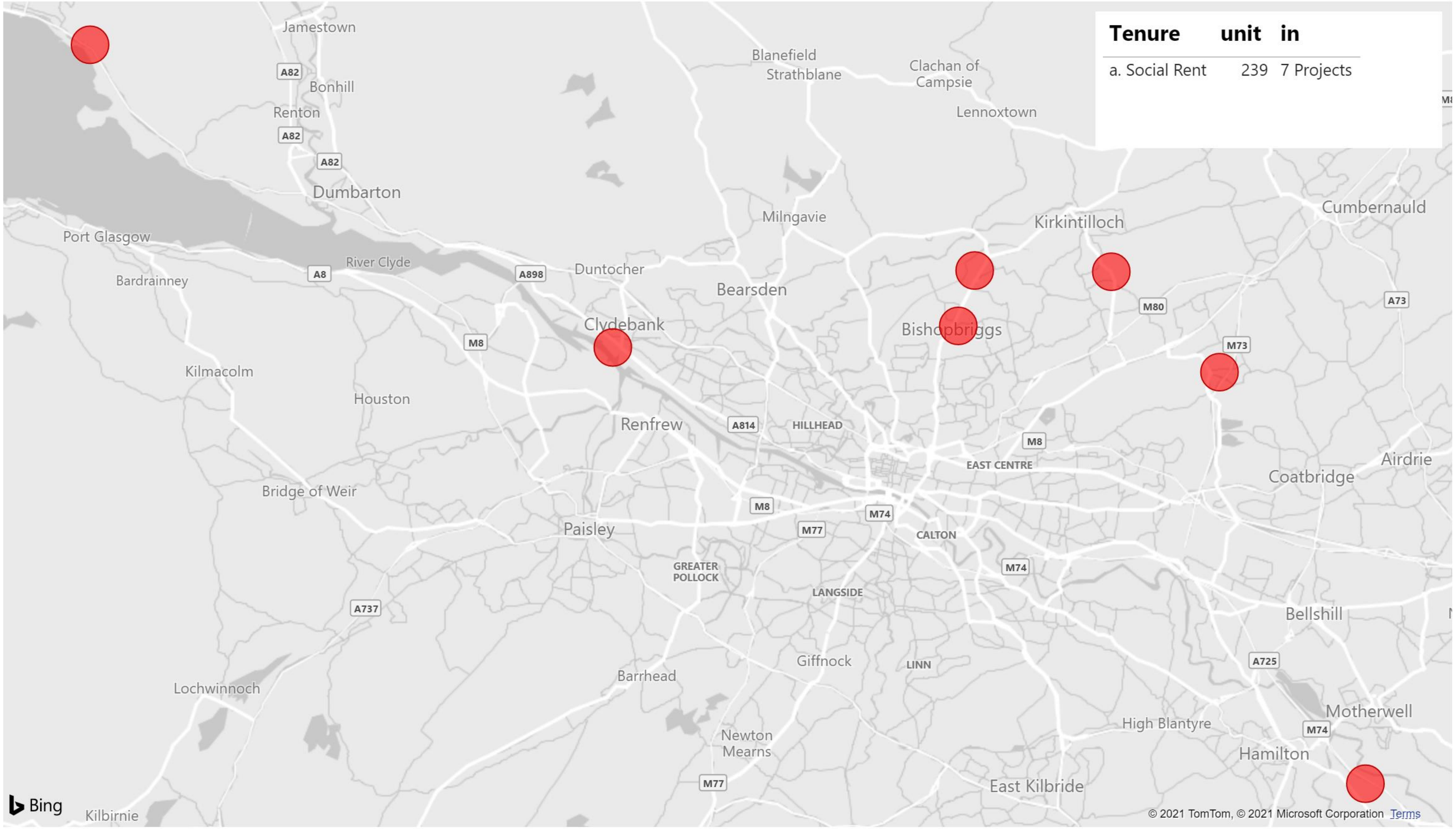
Programme

- (●) Cube
- ( ) DC
- ( ) DGHP
- ( ) GHA
- ( ) Loretto
- ( ) Lowther
- ( ) WLHP

FY of Comp	Project	Area	Prev. Year	SR	MMR	21/22	22/23	23/24	24/25	25/26	Total
23/24	Gartcosh	Gartcosh		18	0			18			18
23/24	Queens Quay	Clydebank		80	0		60	20			80
23/24	Sawmill Field	Helensburgh		36	0		18	18			36
24/25	Crofthead	Bishopbriggs		7	0				7		7
24/25	Ferniegair	Hamilton		42	0				42		42
24/25	South Crosshill Road	Bishopbriggs		40	0			20	20		40
25/26	Lenzie	Lenzie		16	0					16	16
Total				**239**	**0**		**78**	**76**	**69**	**16**	**239**

- ◉ **Cube**
- ○ **DC**
- ○ **DGHP**
- ○ **GHA**
- ○ **Loretto**
- ○ **Lowther**
- ○ **WLHP**

Tenure	unit	in
a. Social Rent	239	7 Projects



● a. Social Rent

Cube

Programme

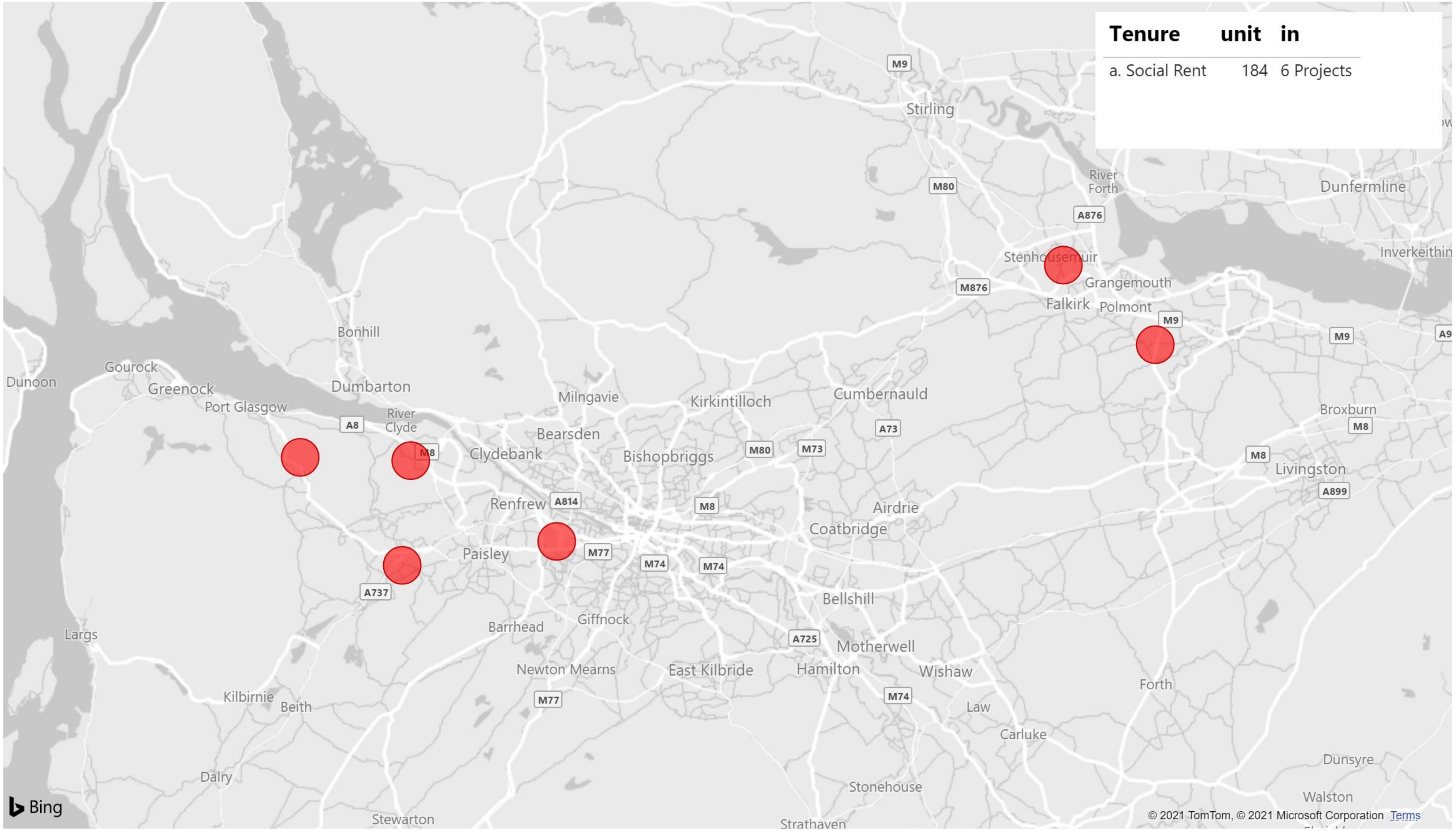
- Cube
- DC
- DGHP
- GHA
- Loretto
- Lowther
- WLHP

FY of Comp	Project	Area	Prev. Year	SR	MMR	21/22	22/23	23/24	24/25	25/26	Total
22/23	Cobblebrae Farm	Falkirk		21	0		21				21
22/23	Hallrule Drive	Cardonald		32	0		32				32
22/23	Vellore Road	Falkirk		8	0		8				8
23/24	Dargavel Village	Bishopton		58	0			58			58
23/24	MacDowall Street	Johnstone		35	0			35			35
24/25	Finlaystone Road	Kilmacolm		30	0				30		30
Total				**184**	**0**		**61**	**93**	**30**		**184**

Loretto Housing

- Cube
- DC
- DGHP
- GHA
- **Loretto** (selected)
- Lowther
- WLHP

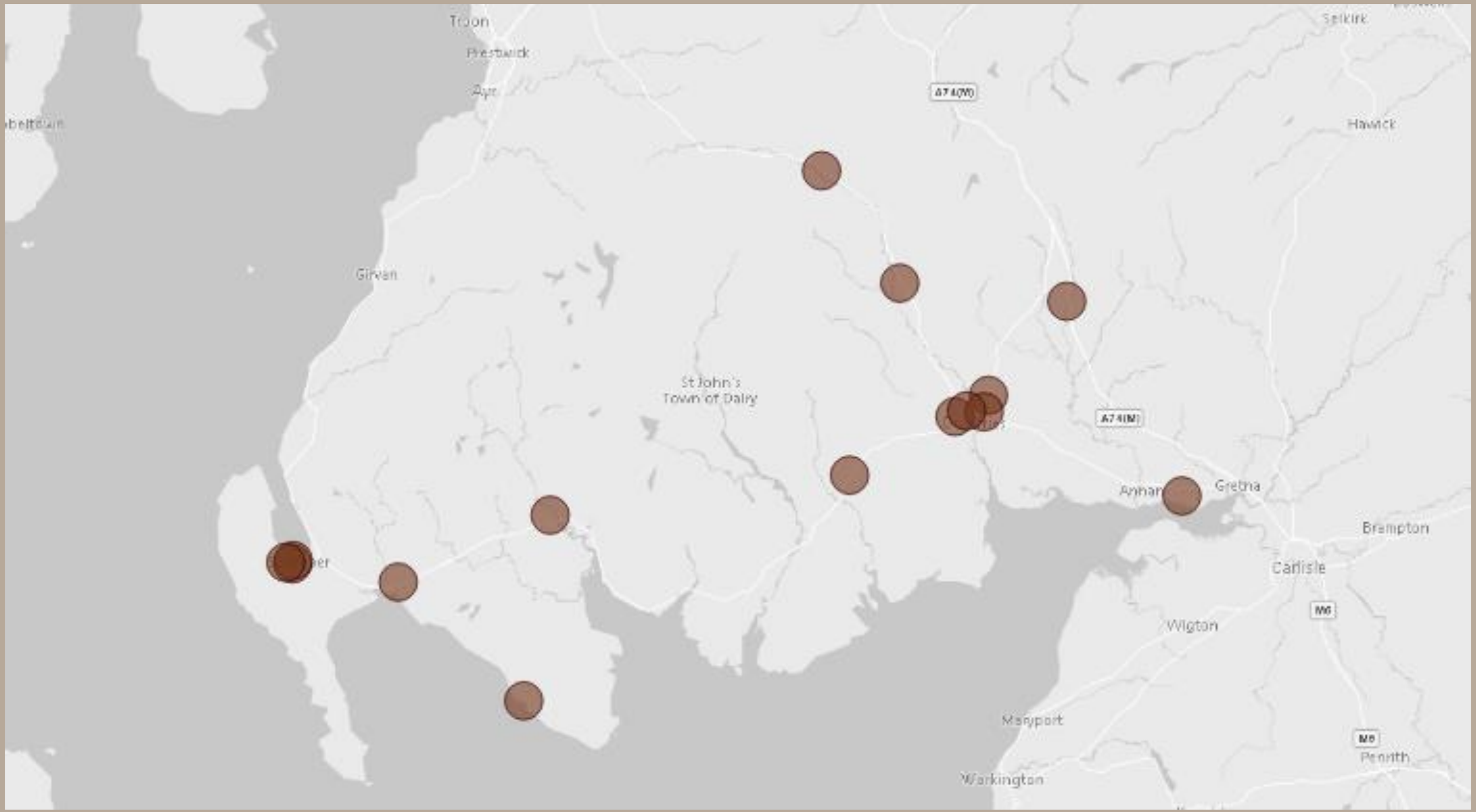
Tenure	unit	in
a. Social Rent	184	6 Projects



a. Social Rent

Loretto Housing

South Programme

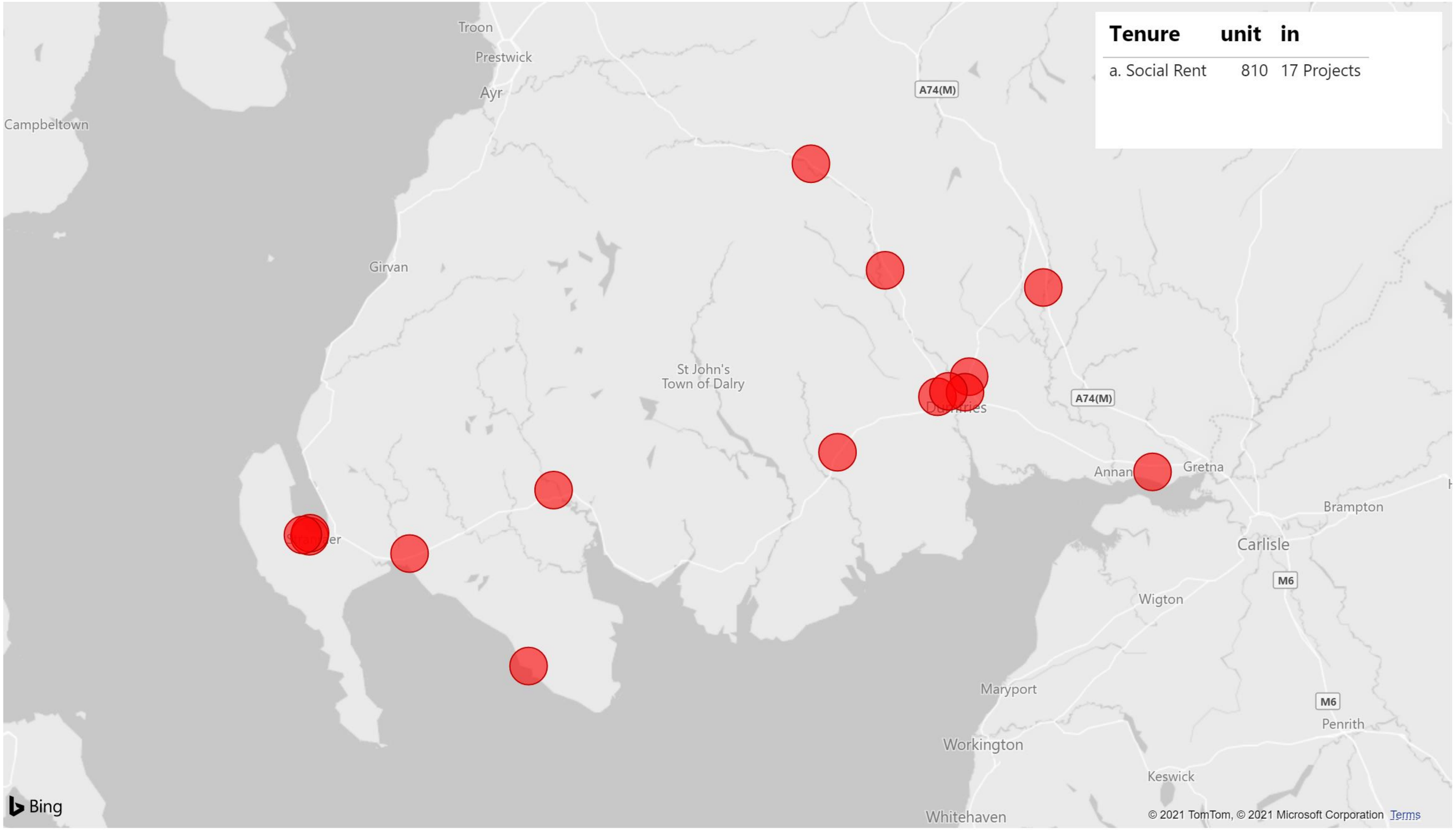


Programme

- Cube
- DC
- DGHP
- GHA
- Loretto
- Lowther
- WLHP

FY of Comp	Project	Area	Prev. Year	SR	MMR	21/22	22/23	23/24	24/25	25/26	Total
21/22	Lincluden Depot	Dumfries		32	0	32					32
21/22	Queensberry Square	Sanquhar		12	0	12					12
21/22	St Medans, Monreith	Monreith		5	0	5					5
22/23	Gillwood Road	Eastriggs		18	0		18				18
22/23	Glenluce Hotel	Glenluce		10	0		10				10
22/23	Nursery Avenue	Stranraer		19	0		19				19
23/24	Ashwood Drive	Stranraer		12	0			12			12
23/24	Johnstonebridge	Dumfries		30	0			30			30
24/25	Corsbie Road	Newton Stewart		60	0			30	30		60
24/25	Ewart Place	Springholm		47	0				47		47
24/25	Thornhill	Thornhill		80	0			40	40		80
24/25	Unallocated			100	0				100		100
25/26	Annan - Stock Regen			50	0					50	50
25/26	Barnhill	Dumfries		40	0					40	40
25/26	Curries Yard	Dumfries		85	0				40	45	85
25/26	George Hotel	Stranraer		10	0					10	10
25/26	Ladypark Farm	Dumfries		200	0					200	200
Total				**810**	**0**	**49**	**47**	**112**	**257**	**345**	**810**

- Cube
- DC
- DGHP
- GHA
- Loretto
- Lowther
- WLHP



Tenure	unit	in
a. Social Rent	810	17 Projects

● a. Social Rent

DGHP

Lowther Programme

[redacted]

Lowther

[redacted]

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 2021/22**

Date of Meeting: **24 February 2021**

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1. Purpose

1.1 This report:

- Provides feedback from our consultation on the 2021/22 RSL rent and service charge increase; and
- Seeks Board approval for the 2021/22 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 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.

3. Risk Appetite and assessment

3.1 The Group's risk appetite in relation to business planning assumptions such as rent increases is open. This 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 In relation to the statutory requirement in consulting and engaging tenants on any rent increase, our risk appetite is averse, that is "*avoidance of risk and uncertainty is a key organisational objective".*

3.3 The decision on rent increases involves striking a balance between the need to continue our path out of underlying deficit into surplus (as set out in our business plan), continuing to deliver services our customers tell us they want, and keeping rents affordable. Setting rents lower than the assumption in the business plan could – in the absence of mitigating cost savings – risk the financial viability of the Group. However, we are also required under statute to take into account the views of customers before making final decisions on rent levels.

4. Background

4.1 Following Group Board consideration and thereafter by each RSL Board we consulted on the following rent increase levels:

RSL	Proposed increase
Cube	1% - as part of tenant ballot
Dunedin Canmore	1.7% and 2.2%
DGHP	2% - ballot commitment
GHA - 3319 multi-storey properties	1% and 1.5%
GHA – all other stock	1.7% and 2.2%
LHA	1.7% and 2.2%
Ex-Barony stock	2% - ballot commitment
WLHP – all other stock	1.7% and 2.2%

4.2 The formal consultation process for these RSLs closed on 18 January. In parallel we consulted Cube tenants on a 1% increase as part of the ballot on the partnership proposals, with the ballot closing on 5 February.

4.3 For former Barony tenants, the consultation is year 2 of partnership arrangements all tenants were previously balloted on. The proposals to transfer to WLHP and DCH included a 3 year rent increase capped at 2%. For the WLHP transfer 87% of tenants voted in favour of the transfer and for the DCH transfer 69.4% voted in favour of transfer.

4.4 For DGHP, the tenant ballot for partnership included a 3-year rent increase proposal of 2% per annum. The ballot recorded a 95.5% vote in favour of the partnership, with an exceptionally high turnout of 75.3%. We know from engagement with DGHP tenants during the partnership proposals that the rent levels were a material factor in their decision making.

4.5 We consider this year's rent increase therefore within the context that former Barony and current DGHP tenants have given feedback on the future rent assumptions in high numbers.

4.6 Each individual RSL Board formally considered their own results in detail at their February meetings and agreed to recommend them to the Group Board for approval.

5. Discussion

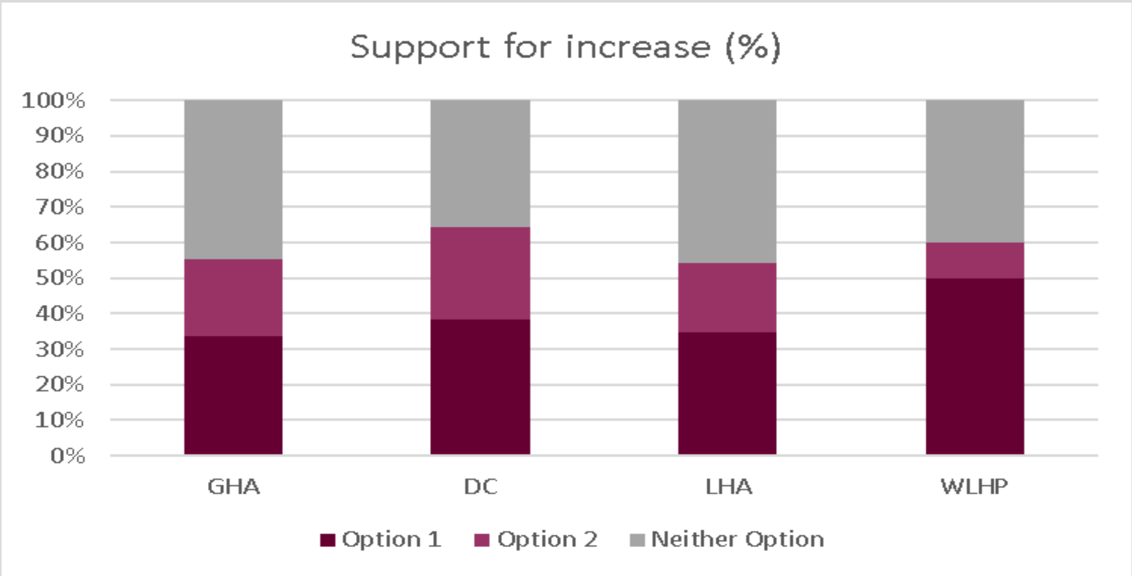
5.1 Taking into account the Cube ballot, we received approximately 3200 responses across the Group on our rent setting proposals. Excluding the 70 DGHP responses this represents a like for like increase on last year's total of 2992.

RSLs – two options

5.2 All 4 RSLs who consulted on two options received **a clear majority** of tenants indicating support for one of the increase options.

RSL	% of tenants in favour of one of the increase options
Dunedin Canmore	64%
GHA	55%
Loretto Housing	54%
WLHP	60%

5.3 A breakdown of the responses by RSL, by option is set out below:

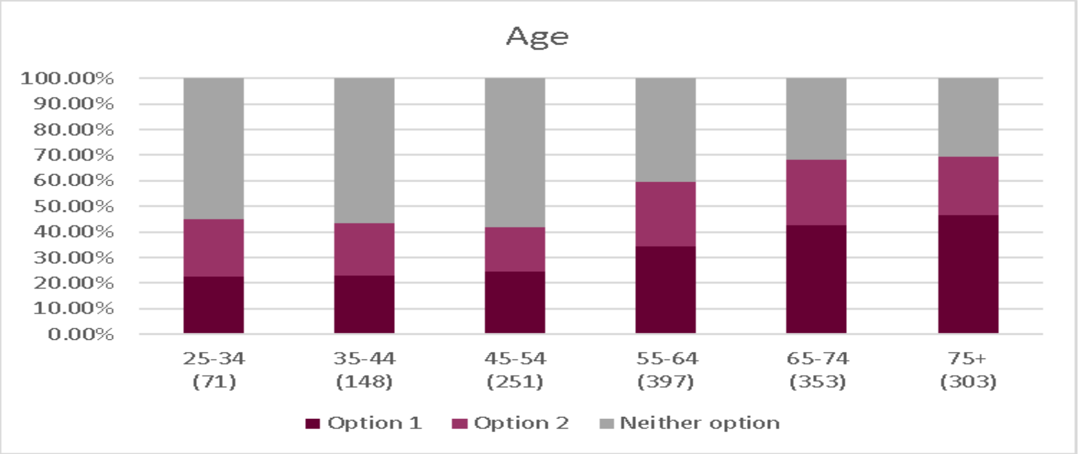


5.4 Comments from tenants were invited as part of their response. The feedback was broadly consistent across the RSLs. For those who supported one of the options, the feedback indicated that they selected this because they wanted the lowest available increase whilst maintaining their current service level (as they were happy with the services they receive).

5.5 Those who selected the higher option showed a strong preference for additional investment being focussed on internal works such as skirting and doors or improvement to grounds such as outdoor communal spaces.

5.6 Those who did not support either option primarily indicated that affordability was a key consideration, particularly within the context of the pandemic.

5.7 We undertook some further analysis of the feedback where the respondent provided their age (1523), with the results as follows:



5.8 The data identifies that return and support levels, as with the previous years, are generally correlated to age, with the level of returns and support ascending with the age groups.

<u>RSLs – ballot commitments</u>

Cube

5.9 A cornerstone of the ballot offer to Cube tenants was a 3 year, 1% annual rent increase cap. We know from our engagement with Cube tenants that this was a strong consideration for tenants. The ballot results were as follows:

RSL	Votes	Yes	No
GHA (Cube Glasgow)	1130	85.8%	14.2%
Loretto Housing (Cube out of Glasgow)	420	92.6%	7.4%

5.10 Over 1500 Cube tenants have therefore indicated their support for the rent proposals.

DGHP

5.11 In DGHP, as indicated, over 7,000 tenants already expressed their support for DGHP's future rent strategy. The ballot represented an agreement between DGHP and its tenants for rent increases over 3 years as an integral part of a wider set of partnership proposals.

5.12 We are still required by statute to consult separately on each year's increase. We therefore consulted on the basis of implementing the second year of the three year plan at 2%.

5.13 We received a total of 70 responses for DGHP providing feedback, of which 55 directly commented on the rent proposals. A relatively small level of feedback was anticipated from DGHP given the level of supportive feedback already received during the ballot.

5.14 A total of 35 of the respondents indicated their support for the proposals and that they were happy on the basis it funded maintaining the current service levels. A total of 20 identified some issues regarding affordability, including in relation to the pandemic. This represents an **equivalent of 63.6%** indicating support.

Ex - Barony

5.15 Similarly to DGHP, the ex-Barony stock consultation was based on the agreed commitment of 2%. Only one tenant (now a WLHP tenant) responded to the consultation, indicating that they considered the proposal of 2% presented them with some wider affordability issues. As the sample size is so small, no further analysis is possible.

6. Key issues and conclusions

6.1 The feedback from tenants indicates a strong level of support for the rent proposals, within the context of the continued service levels it provides. As with previous years, we have continued to refine our rent setting process to take into account issues such as affordability and comparability.

6.2 For Barony, Cube and DGHP our rent proposals are set within the context of commitments made to tenants as part of ballot processes which were subject to significant engagement with tenants and received high response levels.

6.3 Within our largest stock footprint, GHA in Glasgow, the proposed rent increases would be the lowest we have applied in 10 years (other than for stock previously classified for demolition) and reaffirms our strategic priority to utilise financial efficiencies to minimise rental uplifts for tenants.

7. Value for money implications

7.1 The level of rent increase proposed during the consultation included detailed analysis in areas such as affordability and comparability. We know that overall rent levels are an element of how tenants perceive value for money. This is however set within the context of the services we provide, particularly repairs, through the rental income.

8. Impact on financial projections

8.1 The financial implications of our rent uplift are set out in each individual and the Group business plans.

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 Subject to Board approval, we will formally write to all tenants to advise them of the rent uplift.

12. Equalities impact

12.1 Analysis of feedback by age is set out within the report. The ethnicity element of our returns comprised on average c90% of the one category, White Scottish/British. It is intended that as part of our Equality and Diversity policy implementation and new engagement framework we will seek to increase the diversity of responses in future years.

13. Recommendations

13.1 The Board is asked to:

1) Consider the feedback received through the consultation process with tenants on our 2021/22 RSL rent and service charge increase;
2) Agree that a 1% rent and service charge increase be applied to all Cube tenants;
3) Approve a 1% rent and service charge increase for the 3319 multi-storey GHA properties identified in the consultation;
4) Approve all remaining stock in DCH, GHA, LHA and WLHP within the Group applying a 1.7% rent and service charge increase for 2021/22 and formally writing to tenants to confirm this; and
5) Approve the application of a rent and service charge increases of 2% for 2021/22 for all ex Barony tenants and DGHP tenants.

Wheatley Group

Report

To: Wheatley Housing Group Board

By: Steven Henderson, Group Director of Finance

Approved by: Martin Armstrong, Group Chief Executive

Subject: Group and Partner Financial Projections

Date of Meeting: 24 February 2020

---

1. Purpose

1.1 To seek Board 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 As a result of the emergence of COVID-19 and the associated restrictions, there has been substantial disruption to our business and the way in which we deliver services to our customers. We expect this to continue through into 2021/22. Throughout the pandemic we have been closely monitoring our financial performance and providing regular updates to the Board on the impact on our financial projections. During 2020, a decision was taken to delay the launch of the Group's new five year strategy while we reflected on the changes the pandemic had on our business, customers and communities.

4.2 While there have been many challenges over the past year, it has also allowed us to achieve a number of already planned strategic ambitions much earlier than planned.

4.3 Efficiencies achieved to date, and increases in our planned savings from the earlier introduction of our new operating model, have allowed us to reduce our long term rent increase assumptions from 3.5% to 2.9% achieving the key outcome set out in our strategy to deliver below 3% increases by 2026. In January and February 2021 Cube customers voted overwhelmingly to transfer their tenancies to GHA and Loretto, providing the means to increase investment in existing homes and enabling the regeneration of Wyndford and Cranhill. In Lowther, the new £15m on-loan from GHA will enable it to realise its ambition to begin developing new homes for mid-market rent for the first time.

4.4 The Group has five distinct 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* – has 10,300 homes and turnover of £52m; at the moment it has its own loan facilities and covenants which are separate from those of the RSL Borrowing Group;

(iii) *Lowther Homes* – our private letting and factoring arm, with turnover of £26m and its own ring-fenced borrowing from Scottish Widows;

(iv) *Wheatley Care* – the trading brand name for Loretto Care recognising the transfer of former care activities of Barony Housing Association; now our single care vehicle with income of c£22m and no external debt;

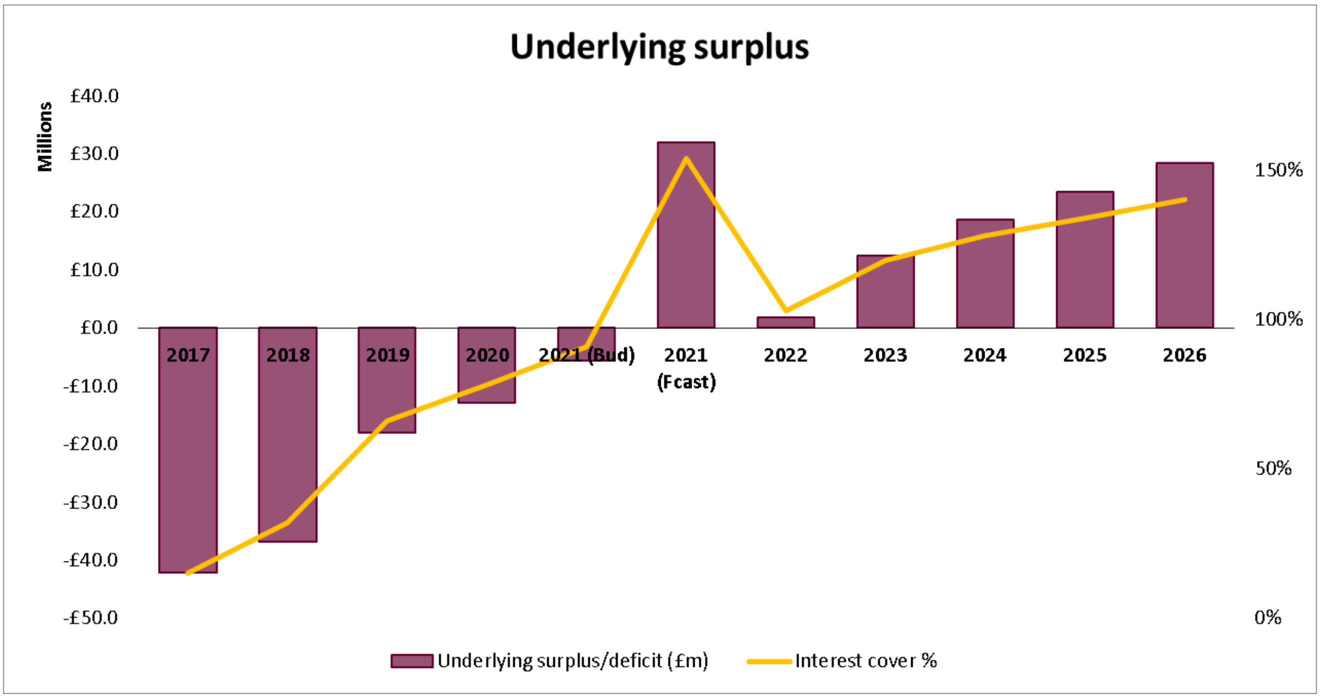
(v) *Wheatley Foundation* – receiving gift aid from Lowther Homes and DGHP commercial subsidiaries, and raising external grant income. The Foundation delivers our community programmes such as employability, education and training and manages investment of around £5m a year.

4.5 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.

4.6 Throughout the pandemic the finances of the Group have remained robust; Government restrictions have meant that spend in areas such as repairs and capital investment have been lower than planned and home working arrangements for many staff have resulted in running cost savings. The forecast for 2020/21 shows the RSL Borrower Group moving out of deficit into an underlying surplus position of £32m for the first time from an underlying deficit positon of £42m in 2016/17. Underlying surplus is defined as being able to pay for the management and maintenance costs of our properties, as well as our loan interest, from our rental and other income.

4.7 This represents a major achievement for us, and while this has been in part due to reduction in costs associated as a result of the pandemic we anticipate being in an underlying breakeven position from 2021/22 onwards. The projections show underlying surplus growing to £28m by year 5.

Figure 1: RSL Borrowing Group - underlying surplus



4.8 Our own "Financial Golden Rules" set out the parameters which we deem prudent in relation to minimum headroom over and above loan covenant levels. Several years ago, our lenders agreed a profile for the interest cover covenant that included a phased transition to underlying surplus. We remain on track with our plan to achieve this, breaking even next year (2021/22). One of our Golden Rules is to maintain at least 25% (c£18m) of headroom over the interest cover covenant. Our approach will continue to balance affordable rent increases, a strong focus on ensuring cost efficiency, and resourcing our strategic ambitions and service model. Our assumed costs (other than the specific exceptions below for new build) reflect the provisions necessary to deliver this strategy.

5. Discussion

5.1 Our draft strategy for 2021-2026, *Your Home, Your, Community, Your Future*, forms the basis of these financials projections. The detailed 2021/22 financial projections for the Group are provided in Appendix 1 of this report. The key elements under each theme of our draft strategy are set out below:

Delivering Exceptional Customer Experience

5.2 Our strategy seeks to deliver exceptional customer experience while maintaining affordable rent levels for our tenants. Our services will be delivered using a blended approach of face to face and digital, will be easy to access and feel seamless to customers. Our financial projections include funding to support:

- delivery of our new operating model; with funding to maintain our strong frontline service presence in communities, including our 1:200 housing officer patch sizes and environmental teams.

- our 24/7 Customer Service Centre will support our customers in new ways, providing proactive support to help resolve customer issues and coordinating many of our larger scale electronic communications through text and secure messaging

- ongoing funding of £2.2m 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 £2.1m per annum. These partnerships support communities across a number of areas, such as fire prevention, and dealing with anti-social behaviour and crime.

5.3 The key role that technology has in supporting our staff in delivering services has been recognised within our financial projections and in total, across the Group, provision has been made for investment in technology of £39.5m over five years, an increase of £20.7m compared to last year's projections. This contribution towards our digital transformation strategy will deliver:

- improved online services, with a range of upgrades and improvements such as new apps for customers to report anti-social behaviour or urgent cleaning required in communal areas and the next phase of improvements to our *MyHousing* lettings and advice system.

- Expanding our online repairs services with automated communications as part of our "*book it, track it, rate it*" approach.

- New ways for customers to engage, for example through community forums, as part of our wider engagement strategy.

- Integration of DGHP systems, aligning the customer experience Group-wide.

5.4 An increase in social rents in April 2021 of 1.70% will be applied by our RSLs, with the exceptions of DGHP and former Barony tenants whose rents will increase by 2% in line with tenant ballot agreements, and c3300 GHA and all Cube tenants whose rents will increase by 1%. This is in line with the consultations carried out with tenants, linked to partnership promises and as approved by all individual RSL Boards.

5.5 Through the implementation of our new operating model, substantial savings will be delivered during 2020/21. The 2021/22 financial projections continue this effort and assume further efficiency savings, of £5m in management costs over the next five years to ensure rents represent value for money for our customers.

Making the Most of our Homes and Assets

5.6 In 2021/22, we plan to invest around £95m in our existing properties, this is equivalent to £1,450 per property. City Building (Glasgow) will continue to play a key part in improving the quality of our customers' homes through its role as our delivery arm for repairs and investment work in the west and will have a key role in the delivery of DGHP's investment programme going forward.

5.7 The trade discount arrangement will see at least £3.25m returned to the Group in 2021/22, subject to any pandemic related changes to the programme, with the discount expected to increase in subsequent years. In total, we plan to invest approximately £360m in improvements to our customers' homes in the first five years of the plan. Longer term investment provision includes additional funding for the Energy Efficiency Standard for Social Housing ("EESSH") mark 2 which requires, where practically possible, all properties to be bought up to EPC band B by 2032 in line with guidance published last year by the Scottish Government and the Scottish Housing Regulator.

5.8 A key part of our strategy is to continue to develop quality affordable homes for people in the areas in which we operate and to regenerate communities. We have set ourselves an aim of delivering 5,500 new homes by 2026 and plan to complete 675 homes in 2021/22. Over the period from 2021 to 2026 our base case financial plan reflects the completion of 3,853 additional new build properties including 810 to be delivered by DGHP and 300 by Lowther Homes. The development plan for Lowther Homes includes a scenario for a further 70 units in recognition of a potential site at the Bellgrove Hotel taking Lowther's programme up to 370 units and the Group programme to 3,923 units over the five years. Further details of the Group five year development programme are included separately on the Board meeting agenda.

5.9 While additional development capacity was created within the group by increasing the loan from GHA to Lowther by £15m, enabling Lowther to take on a direct development role, the overall level of development remains limited at the moment by the RSL Borrower Group's "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 1,650 homes to meet our strategic ambition of 5,500 new homes in the period

5.10 This planned growth, which includes the completion of 2,649 new social housing units and 1,204 mid-market properties over the next five years is assumed to be supported by £270m of grant income. In their recently published infrastructure plan, Scottish Government announced their commitment to increase capital funding for new housing by 16% to £3.3bn over the next parliamentary term. 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.

Changing Lives and Communities

5.11 In April 2020 Care services delivered by Loretto Care and Barony Housing were brought together under Wheatley Care. This represented a major step towards realising our ambition of being one of Scotland's leading care organisations by 2026 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.

5.12 Care services continue to generate surpluses achieved through a combination of efficient Group service provision reducing the overhead costs paid. Care activities represent 5% of Group turnover with financial performance closely monitored by Care management to effectively reconfigure services in response to change by altering staff structures and working patterns.

5.13 Our financial projections assume that Wheatley Care will continue to generate surpluses over the five year period despite a challenging operating environment. The summary projected position of Wheatley Care is shown below.

Table 1 – Wheatley Care Income Statement

	2021-22 £000s	2022-23 £000s	2023-24 £000s	2024-25 £000s	2025-26 £000s
Income	**21,649**	**22,032**	**22,441**	**22,856**	**23,279**
Expenditure					
Staff	(17,029)	(17,325)	(17,626)	(17,911)	(18,236)
Overheads	(3,176)	(3,242)	(3,300)	(3,352)	(3,406)
Group recharge	(1,333)	(1,361)	(1,392)	(1,420)	(1,449)
Total Expenditure	**(21,538)**	**(21,928)**	**(22,318)**	**(22,683)**	**(23,091)**
Surplus	**110**	**103**	**123**	**173**	**187**

5.14 In addition to Care services, the financial projections demonstrate our commitment to changing the lives of our tenants and the wider communities in which we operate. This will be achieved through:

- Maintenance of the commitment to Wheatley Care's Tenancy Support Service with a contribution of nearly £1.5m per annum.

- The continued delivery of wide ranging support by the Wheatley Foundation to customers across the group including in the key areas of poverty and inclusion, and employability. This is enabled by £1.5m of annual gift aid from Lowther Homes and DGHP's commercial operations, contributions of £2.5m from the Group RSLs and external fund raising. Overall funding available to deliver support is projected to be £5.0m in 2021/22.

- Extending the commitment for the Helping Hand Fund of £0.6m per annum for three years until 2023/24. The fund provides assistance to our tenants experiencing financial difficulty and can support with help towards utility bills, the purchase of food or can help tenants struggling with rent arrears, particularly relevant in relation to the wider roll out of Universal Credit.

Developing our Shared Capability

5.15 During 2020 we made significant progress in reshaping our operating model as we moved to deliver services using a blended approach of face to face and virtual engagement with our customers. Over the next five years, we will continue to invest in our staff to ensure they have the exceptional skills, attitude, engagement and influence to excel in this new, increasingly virtual working environment. Our financial plan helps fund a continued focus on staff development in a technology enabled workplace and in our leadership and graduate programmes.

5.16 Our financial projections include a provision of £39.5m for investment in IT to deliver our digital transformation programme over the period of the strategy. In addition to delivering improvements in services for customers this investment, combined with planned investment of £14.4m in office accommodation (including a contingency of £3.5m), will deliver a new collaborative hub estate, improved homeworking services to staff and a safe, secure and reliable technology service.

5.17 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. 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. Together the Foundation provides £0.7m of funding per annum for these initiatives.

Enabling our Ambitions

5.18 To achieve our strategic ambitions, we need to ensure the Group has sufficient funding arrangements in place to support our objectives and we remain compliant with our loan covenants. In April 2020, the RSL Borrowing Group drew £72m from the £185m long term [redacted] arrangement put in place in 2018/19, which gave the RSLs access to a higher level of cash balances should it have been required during the initial months of the pandemic. The remaining £28m [redacted] facility is assumed to be drawn in June 2021.

5.19 DGHP has separate funding arrangements with facilities from [redacted], [redacted], [redacted] and [redacted] totalling £224m, it remains outwith the main RSL borrower group. The intention, subject to lenders consent, is for them to join the borrower group in 2023/24 once catch up investment works are substantially completed with the [redacted] funding and revolving credit facility novating across. The DGHP funding combined with the existing facilities in place within the borrower group means that we have sufficient liquidity to support our current development and investment programme.

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. We do not propose any change to these this year. The Golden Rules therefore remain 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

5.21 The funding structure has been developed to ensure that sufficient liquidity is maintained to meet our Golden Rules. Our cashflow projections show the RSL borrower group having sufficient cash and available on-demand loan facilities to maintain headroom over and above the projected debt requirements and maintaining the Golden Rule for the next two to three years.

5.22 The next key activity is the re-financing of the £100m [redacted] with work commencing in June 2021 aiming to be concluded by September 2022 with the facility expiring in November 2023. The projections assume two new private placements for £50m and £85m in 2023 and 2024 respectively. The funding strategy will be brought to the Board for consideration during 2021/22.

6. Group Financial Projections

6.1 The Group financial projections are set out in Appendix 1 together with the Group Statement of Comprehensive Income and Group Statement of Financial Position respectively.

RSL Borrower Group

6.2 The RSL activities within the Group, with the exception of DGHP, 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 and the generation of sufficient operating margin and asset cover to support the level of borrowings. When considering our position, we look to the amount of cash that the business generates from its operations, remove non-cash accounting adjustments such as depreciation and new build grant recognised, and deduct the costs to maintain our properties. 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 cash 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 2 below presents the EBITDA-MRI profile for the RSL Borrowing Group mapped against our interest costs.

Table 2: RSL Group EBITDA-MRI projections
[redacted]

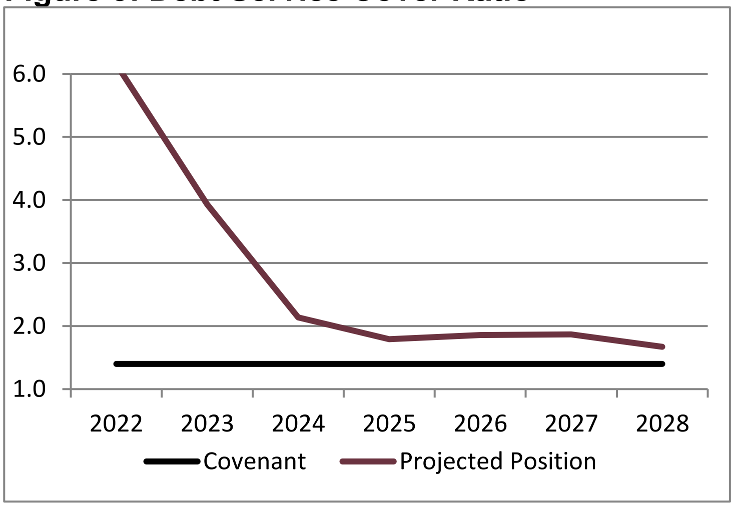
6.5 We anticipate reaching break-even on an underlying EBITDA MRI measured against interest costs in 2021/22.

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:

Figure 2: Interest Cover
[redacted]

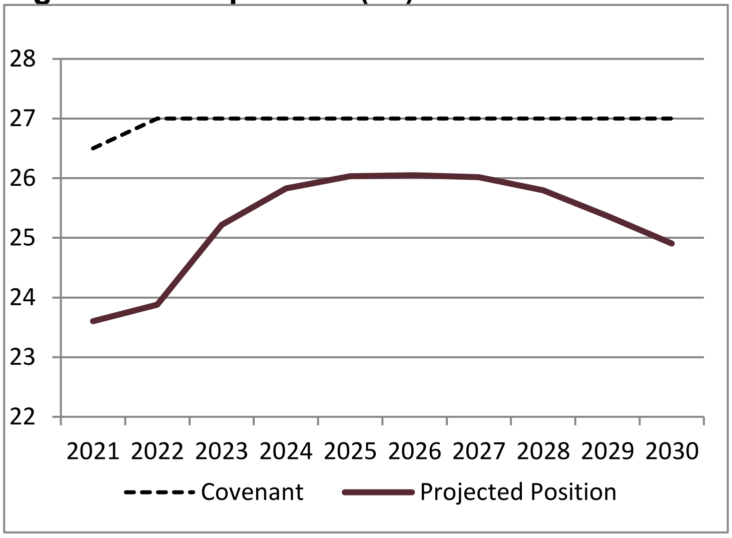
The interest cover covenant declines each year as the percentage of capitalised investment works in existing properties included as a deduction from operating surplus increases – from [redacted]% in 2021/22 to a [redacted]% deduction by 2022/23. **Minimum headroom is forecast as £18.3m** in 2023/24.

Figure 3: Debt Service Cover Ratio



The Debt Service Cover Ratio is embedded in our EIB loans. This measures cash available relative to debt service requirements defined as interest plus capital repayments. **Minimum headroom is forecast as £29.3m**. This covenant is measured on a cash flow basis, so is subject to volatility due to the timing of cash receipts and payments in any year. As we put in new loan facilities to ensure our liquidity Golden Rule continues to be met, this will replenish headroom on this covenant.

Figure 4: Debt per Unit (£k)

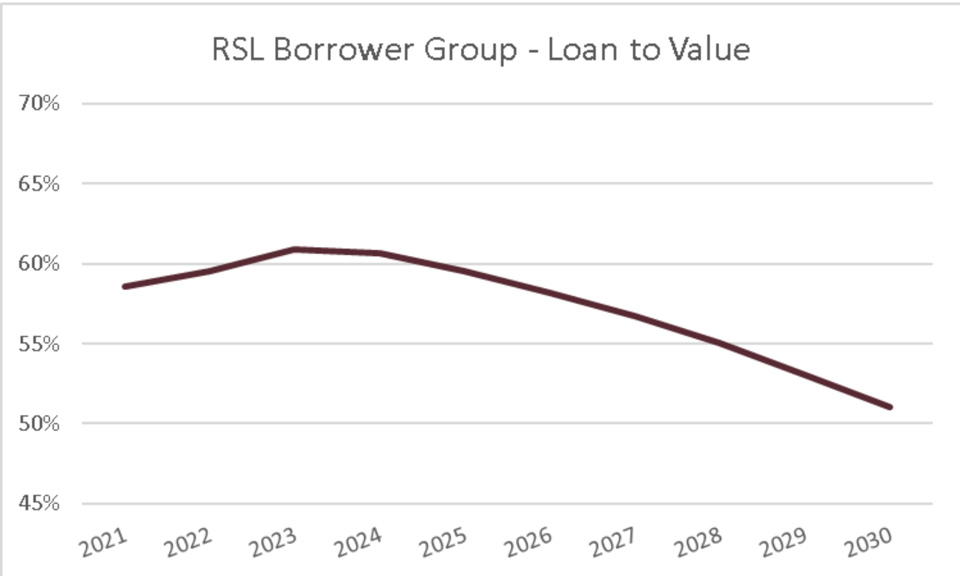


The profile of the debt per unit covenant was revised in 2018/19 to increase the maximum from £25,000 to £27,000. This increase supported an extension of our new build programme and will allow us to develop 3,850 homes over the next five years. **Minimum headroom is £52m** in year 2025/26 when debt per unit peaks at c£26,050 and remains close to that amount until 2027/28.

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.

6.8 While not a loan covenant, the loan to value ratio (outstanding loans net of cash divide by the value of completed housing and investment properties) is used to assess whether there is sufficient asset cover to support the level of debt. Figure 6 shows asset cover over the. Loan to value increases from [redacted]% in 2020/21 to [redacted]% in 2022/23 before reducing each year thereafter demonstrating the RSL Borrower Group has sufficient asset cover to support loans.

Figure 5: RSL Borrower Group Loan to Value



Dumfries and Galloway Housing Partnership

6.9 Separate funding arrangements are in place for DGHP which were refinanced in 2019 with a combined £[redacted]m facility in place with [redacted] and [redacted]. Similar to the RSL Borrower Group, the EBITDA – MRI measure is also important for DGHP in understanding the strength of cash generation in the business available to pay interest on loans.

6.10 Table 3 shows the EBITDA-MRI profile for DGHP compared against interest costs on its own funding arrangements:

Table 3: DGHP EBITDA-MRI projections
[redacted]

6.11 Due to the high level of investment assumed in existing homes in the earlier years, EBITDA – MRI is negative in the first year. As income increases and investment required reduces the measure becomes positive and by 2023/24 there is sufficient cash generated to cover both investment in existing stock and funding costs.

6.12 DGHP continues to comfortably meet its covenants and the associated "Golden Rule" policy position of always maintaining at least 25% of headroom on interest cover. There is a key difference between the covenant requirements of [redacted] and [redacted] with [redacted] considering interest cover against EBITDA with no adjustment for amounts invested in existing homes. This is highly favourable for DGHP given the level of capital spend required in the relatively short-term to meet regulatory compliance. [redacted], consistent with their terms provided to the other RSLs in the borrower group, use EBITDA – MRI as their measure for considering interest cover.

Lowther

6.13 [paragraphs 6.13-6.16 redacted]

7. Key Issues and Conclusions

7.1 The updated financial projections, once approved, will set the overall borrowing framework for 2021/22. 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 with additional funding included to meet EEESH mark 2 standard by 2032.

8.2 Through the establishment of our “in house” services in Dunedin Canmore serving the east and in DGHP to serve tenant in Dumfries and Galloway and the close working relationship with our City Building joint venture we continue to improve the customer journey. The projections include provision for a substantial investment in the next five years in technology, an element of which will be used to align and modernise the delivery of the repairs service across the Group.

8.3 Our frontline housing model, with 1:200 patch sizes and the Wheatley 360 wraparound service are key elements of our service provision with DGHP launching the group frontline model in 2020/21 and the introduction of wraparound services planned for DGHP tenants in 2021/22. Support for vulnerable customers is prioritised through our Wheatley Foundation, Tenancy Support Service, and our expanded Livingwell offer for older customers. As more tenants transfer onto Universal Credit in the coming years and we have continued the Helping Hand Fund provision for three further years until 2023/24, 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 2021/22 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, expected 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, *Your Home, Your Community, Your Future*;
2) approve the RSL Borrower Group financial Golden Rules set out at paragraph 5.21 of this report;
3) approve the financial projections for each of the subsidiaries attached and City Building which will follow under separate cover; and
4) agree that the projected 2021/22 figures form the basis of next year's annual budgets for each subsidiary and the Group overall.

LIST OF APPENDICES

Appendix 1 – WHG 2021/22 Financial Projections
Appendix 2 – GHA 2021/22 Financial Projections
Appendix 3 – WLHP 2021/22 Financial Projections
Appendix 4 – Loretto Housing 2021/22 Financial Projections
Appendix 5 – Dunedin Canmore 2021/22 Financial Projections
Appendix 6 – DGHP 2021/22 Financial Projections
Appendix 7 – Wheatley Care 2021/22 Financial Projections
Appendix 8 – Lowther Homes 2021/22 Financial Projections [redacted]
Appendix 9 – Wheatley Solutions 2021/22 Financial Projections
Appendix 10 – Wheatley Foundation 2021/22 Financial Projections
Appendix 11 – City Building (Glasgow) 2021/22 Financial Projections (to follow under separate cover)

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Wheatley Housing Group

2021/22 Financial Projections

Classified as Internal

Index

1. Strategic context

External environment	Customer priorities
• ***UK economy*** – economic disruption caused by Covid-19 has placed a strain on employment with rates rising, inflation has reduced to 0.6% from 1.5% at March 2020 and downward pressure remains on interest rates. • ***Welfare reform*** – Implications of the wider roll out of Universal Credit to new claimants. • ***Government support for housing in Scotland*** continues despite pressure on resources	• ***Affordable rents*** – household income under pressure with increased unemployment and reductions in income as a result of Covid-19 pandemic. • ***Safe and well maintained homes and neighbourhoods*** – increasing references to antisocial 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. • ***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 with investors 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).	• ***Ongoing investment in services*** – increased use of technology and services designed to meet customer needs. • ***Operational performance*** – continued focus on performance improvement key to financial stability and becoming best in class. • Mitigating the risk of increased rent arrears when ***furlough ends*** • Making resources available for ***additional capital investment, in particular to meet the Energy Efficiency Standard v2 whilst keeping rents affordable***

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

Financial Projections – next 5 years

Statement of Comprehensive Income

£000s	2021-22	2022-23	2023-24	2024-25	2025-26
Turnover	**397,591**	**403,818**	**435,083**	**456,869**	**458,832**
Operating Costs	(299,545)	(302,444)	(306,859)	(314,360)	(325,800)
Other Income & Gains	(18,491)	(1,826)	(23,124)	(17,494)	(3,475)
Operating Surplus/(Deficit)	**79,554**	**99,548**	**105,100**	**125,016**	**129,557**
Operating Margin	*20%*	*25%*	*24%*	*27%*	*28%*
Gain on Sale of Fixed Assets	-	275	8	-	-
Net Interest Payable	(69,586)	(72,033)	(77,727)	(81,513)	(84,352)
Surplus/Deficit before Tax	**9,968**	**27,790**	**27,382**	**43,502**	**45,205**
Tax	(187)	(396)	(338)	(352)	(465)
Surplus for the Year	**9,781**	**27,394**	**27,043**	**43,150**	**44,740**
Movement in Housing Valuations	(7,525)	(3,491)	9,554	(5,624)	1,383
Comprehensive Income	**2,256**	**23,903**	**36,598**	**37,526**	**46,124**

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 15.2% over the period from £348m to £401m 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 four years as a result of efficiencies in employee and running costs driven primarily by implementation of the new staff operating model. Costs in the initial years are also higher as a result of short term one off costs such as demolition costs and initiatives. A provision for additional costs relating to Covid-19 has also been included in the first year in anticipation of an ongoing requirement for PPE in 2021/22. In year 5 operating costs increase due to a one off provision for further restructuring combined with additional costs associated with new build. The movement in operating costs in real terms is demonstrated in the table below.

	2021-22	2022-23	2023-24	2024-25	2025-26
Operating Cost*	£300m	£294m	£289m	£288m	£291m

**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 and Lowther 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 recognition of new build grant income and valuation movements, the operating surplus is projected to increase from £48m in 2021/22 to £75m in 2026/27. This is equivalent to an increase in operating margin from 14% to 19% 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 before housing valuation movements of £9.8m in 2021/22. This is projected to increase over the five year period to £44.7m due to increases in turnover as a result of increasing property numbers, rent increases and efficiency savings achieved on operating expenditure.

Statement of Financial Position

	2021-22	2022-23	2023-24	2024-25	2025-26
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Housing & Investment Properties	2,725,701	2,829,621	2,930,065	3,016,173	3,095,761
Other Fixed Assets	68,212	71,289	72,376	71,678	68,570
Total Fixed Assets	**2,793,913**	**2,900,910**	**3,002,441**	**3,087,850**	**3,164,331**
Debtors Due < 1 year	33,704	33,847	33,399	33,075	33,126
Cash	62,349	51,063	49,416	33,288	28,837
Creditors Due < 1 year	(160,466)	(156,234)	(153,123)	(136,696)	(122,782)
Net current assets/(liabilities)	**(64,413)**	**(71,324)**	**(70,308)**	**(70,333)**	**(60,819)**
Loans – Bank & Bond	(1,515,380)	(1,589,478)	(1,653,235)	(1,698,788)	(1,736,235)
Loans - SG	(40,563)	(42,648)	(44,840)	(47,145)	(49,569)
Provisions for liabilities & charges	(5,660)	(5,660)	(5,660)	(5,660)	(5,660)
Pension Liability	8,642	8,642	8,642	8,642	8,642
Long Term Liabilities	**(1,552,961)**	**(1,629,144)**	**(1,695,093)**	**(1,742,951)**	**(1,782,822)**
Net Assets	**1,176,539**	**1,200,442**	**1,237,040**	**1,274,566**	**1,320,690**
Capital & Reserves	**1,176,539**	**1,200,442**	**1,237,040**	**1,274,566**	**1,320,690**

Fixed assets and investment properties

Over the five year period the value of housing and investment properties are forecast to increase by £473m (18%). This is due to the additional 3,853 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 years 1 and 2 due primarily to assumed increases in rent debtors to provide for the possible implications of the Covid 19 pandemic on customers' income couple with transition of all tenants of working age to 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 £249m 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 are assumed to remain constant over the period.

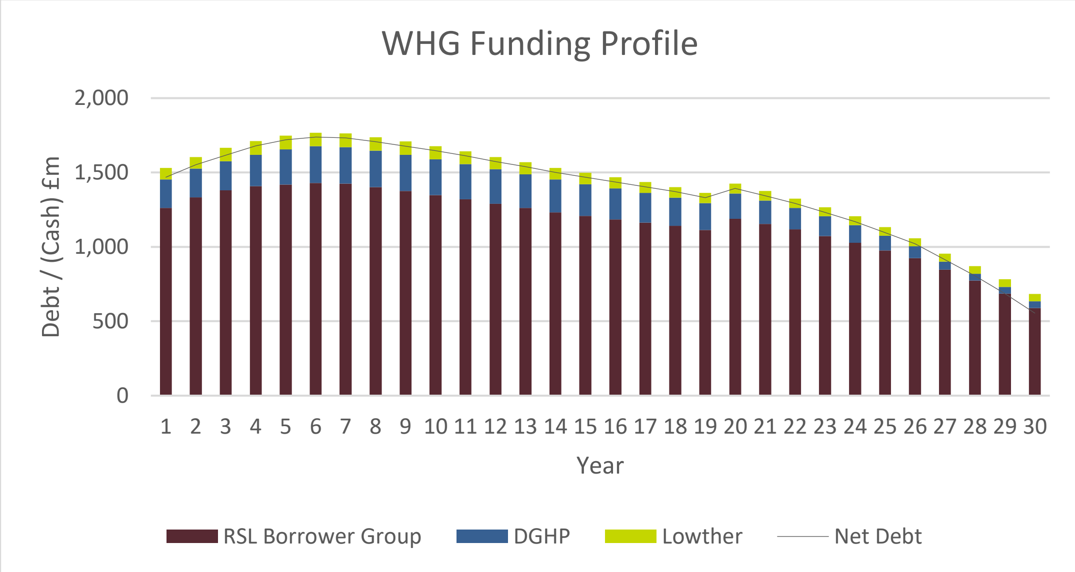
Net Assets

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)	£1,767.8m	6	£1,428.7m	6	£247.7m	6	£91.5m	3
Net Peak debt (£/year)	£1,738.5m	6	£1,413.7m	6	£242.7m	6	£86.4m	5



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 once it has completed its catch up programme of major investment. Section 4, sets out the key assumptions and financial projections for DGHP.

Stock numbers

Between them GHA, Cube, WLHP, Loretto Housing and Dunedin Canmore Housing (DCH) currently own or manage approximately 51,200 properties for social rent, 940 mid market rent houses, which are leased to Lowther Homes, and 370 shared ownership or shared equity properties. In early 2021, tenants of Cube Housing Association were consulted on a proposed transfer of their tenancies to GHA and Loretto and following a successful ballot it was agreed that ownership of the 3,775 properties would transfer during 2021/22.

Of the 51,200 social housing units there are 600 properties which are assumed for demolition. These relate to four 26 storey blocks in the Wyndford estate, currently owned by Cube but assumed to transfer to GHA, and are linked to the proposed wider regeneration of the area. There are a further 124 GHA owned properties, primarily at Gallowgate, where demolition is currently in progress. These were handed over to the contractor in 2020/21 and are therefore excluded from the opening stock

The projections do not assume any significant disposal of housing properties with the exception of a small number of supported accommodation properties previously owned by Barony. The projections assume that 28 properties which are now owned by Dunedin Canmore following the transfer from Barony will be sold over the first three years. These properties do not allow for tenants residing in the accommodation to live independently and a disposal and re-provisioning strategy was approved previously by the Barony Board.

While properties will be lost in the next three years as a result of demolition and disposals, the plan projects an overall increase in social housing units as a result of our development and acquisition programme. While our development programme was severely disrupted in 2020/21 as a result of Covid-19 restrictions, it is anticipated that 330 new homes for social rent will have been delivered in the year to March 2021. Over the first five years, an additional 1,839 new properties for social rent will be completed as part of this programme with a further 656 in the period to 2027/28. This will be funded from available cash as a result of the £72m 2018 EIB drawdown in April 2020, drawdown of the remaining £28m of the 2018 EIB facility in May 2021, use of our committed RCFs and will be supported by Scottish Government grant funding. Combined with individual acquisitions, the overall development programme is expected to deliver 1,845 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*	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
GHA	39,882	42,560	42,160	42,184	42,264	42,314
Cube	3,721	-	-	-	-	-
WLHP	742	878	985	1,015	1,201	1,263
Loretto	1,442	2,434	2,573	2,742	2,841	2,857
DCHA	5,415	5,469	5,618	5,745	5,815	5,985
Total	**51,202**	**51,341**	**51,336**	**51,686**	**52,121**	**52,419**

**excludes units managed but not owned*

The 943 mid-market rent properties forecast to be owned by the RSLs in April 2021 reflect the completion of 109 new units during 2020/21. Over the next five years it is projected that a further 904 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 2025/26 it is forecast that 1,847 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.

Income

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 2021. The April 2021 general increase approved by all subsidiary boards was 1.7%. The rent growth assumption for subsequent years is shown in the table below:

	2021-22	2022-23	2023-24	2024-25	2025-26	2026 on
Rent Increase	1.7%	2.4%	2.9%	2.9%	2.9%	2.9%

Where commitments have been made to tenants on rent increases, in Cube for example where rent increases are capped at 1% for 3 years, this has been reflected in our projections.

Gross rental income will be reduced by voids, bad debts and arrears. Void loss in the 2020/21 year to date has been higher than in previous years, primarily due to backlog voids which built up during the spring 2020 lockdown restrictions and the impact of social distancing requirements on letting activity later in the year. These backlog voids have been largely cleared and void loss reported in recent months has reduced considerably with this expected to reduce further. Similar trends have also been observed in both rent arrears and bad debts. The forecasts therefore reflect an increase compared to historical performance to provide for the impact of further restrictions combined with the potential impact of welfare reforms. The table below shows the assumed average percentage of rent lost across the group's lettable stock.

Performance	2021-22	2022-23	2023-24	2024-25	2025-26
Voids	1.2%	1.2%	1.2%	1.2%	1.2%
Bad Debts	1.9%	1.9%	1.9%	1.9%	1.9%

Where properties have been assumed for demolition, rent loss from voids has been estimated based on anticipated clearance times.

A provision has also been made for an increase in arrears of £3m over the first two years of the projections to allow for the potential impact of Universal Credit and other benefit changes. This reflects our experience of tenants who have already moved onto Universal Credit and expectations going forward and includes an increased provision in 2021/22 for the potential impact of Covid-19 on customers' income.

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 and furnished lets.

Operating Expenditure

Management costs

During 2020 we made significant progress in reshaping our operating model as we moved to deliver services using a blended approach of face to face and virtual engagement with our customers. The move to the new operating model has already generated substantial savings over the past year and our financial projections reflect the further savings we anticipate will be realised over the next five years through the increased use of technology and the move to increased homeworking, which will enable rationalisation of our office accommodation.

These savings allow the Group to keep rents affordable for tenants while delivering on our strategic aim of delivering an exceptional customer experience. 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 will be easy to access and feel seamless to customers.

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	2021-22	2022-23	2023-24	2024-25	2025-26
Employee Costs					
– Direct RSL	44,164	41,241	40,697	41,511	42,341
– Solutions Recharge	13,866	13,870	14,007	14,287	14,573
Total	**58,030**	**55,111**	**54,704**	**55,798**	**56,914**
Running Costs					
– Direct RSL	10,940	10,566	11,018	11,300	11,607
– Solutions Recharge	9,999	10,641	10,745	10,340	10,598
Total	**20,939**	**21,207**	**21,763**	**21,640**	**22,205**

In order to deliver the planned savings a provision of over £8.1m 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.

While Covid-19 restrictions resulted in changes to the repairs service and a reduction in the number and types of repairs we were able to deliver in 2020/21, our financial projections reflect the enhanced level of funding put in place in 2019/20 to meet the increasing legislative requirements that the business must comply with and the exceptional service our customers expect. 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.

	2021-22	2022-23	2023-24	2024-25	2025-26
Repair cost per unit	845	873	899	914	941

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 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 two years and increased work from DGHP. In 2021/22 it is assumed that the discount will be £3.25m.

Demolition Costs

Over the first three years our financial projections include a provision of £9.5m for the costs associated with demolition. This includes the physical demolition cost, site security and home loss and disturbance payments made to tenants. These costs relate primarily to the 600 properties assumed to be demolished within the Wyndford estate as part of the wider regeneration of the area. As this site will be redeveloped we have assumed that £7.5m can be capitalised as part of the site preparation costs for the planned new homes.

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 each of the first three years 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 £1.7m 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. The additional interest assumed to be received in relation to a £15m increase in GHA’s loan to Lowther will also be redirected to the Foundation and will replace direct donations by the RSLs.
- £1.5m per annum for tenancy support services provided by Group subsidiary Loretto Care
- £2.1m 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

	2021-22	2022-23	2023-24	2024-25	2025-26
Operating Expenditure	**141,352**	**134,744**	**130,469**	**127,886**	**130,045**
Average Stock (Social)	51,272	51,339	51,511	51,904	52,270
Operating Cost per Unit	**2,757**	**2,625**	**2,533**	**2,464**	**2,488**

This shows that over the five year period operating cost per unit reduces by 9.8%. 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 and 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 2020/21 delivery of our planned investment programme was delayed as a result of Covid-19 restrictions. We have therefore updated our five year investment programme 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 to ensure commitments made to tenants are delivered as soon as possible. In the last year the Scottish Government and the Scottish Housing Regulator published further guidance on the achievement of the Energy Efficiency Standard for Social Housing (“EESSH”) mark 2 which requires, where practically possible, all properties to be bought up to EPC band B by 2032. The revised programme includes a provision for work towards meeting this standard in addition to ensuring on going lifecycle component replacements and compliance works are carried out. Funding has also been separately identified for the delivery of customer 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 2021-22	Year 2 2022-23	Year 3 2023-24	Year 4 2024-25	Year 5 2025-26	Total Years 1-5
Component Replacement	13,240	11,224	14,963	16,670	16,192	**72,289**
New Legislative Requirements	23,710	20,938	17,835	15,307	15,207	**92,998**
Strategic Projects	4,389	5,522	4,318	5,713	5,493	**25,436**
Total Stock Improvement Programme	**41,339**	**37,684**	**37,116**	**37,691**	**36,893**	**190,723**
Capitalised Repairs	13,090	13,263	13,660	14,081	14,433	**68,527**
Medical Adaptations & Other Costs	6,351	6,358	6,384	6,531	6,672	**32,295**
Total Capital Investment	**60,780**	**57,304**	**57,160**	**58,303**	**57,997**	**291,544**

New Build

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

	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Units Completed						
- Social	283	458	365	435	298	**1,839**
- MMR	343	72	223	214	52	**904**
Total	**626**	**530**	**588**	**649**	**350**	**2,743**
Development Costs* £000s						
- Social	59,239	52,684	56,396	48,106	48,890	**265,316**
- MMR	43,643	38,431	21,308	13,817	8,665	**125,865**
Total	**102,883**	**91,115**	**77,704**	**61,923**	**57,556**	**391,180**
Grant Income £000s						
- Social	34,303	19,975	28,954	23,364	26,128	**132,724**
- MMR	23,460	9,378	4,930	2,597	3,501	**43,866**
Total	**57,763**	**29,353**	**33,884**	**25,961**	**29,628**	**176,590**

**excludes staffing, development fund and individual acquisitions*

A development fund provision of £1.55m has been assumed to support our new build programme. An allowance of £0.3m for the acquisition of individual properties has also been included.

In addition to the 2,743 properties assumed to be directly delivered over the five year period, the financial projections reflect an increase in GHA's loan to Lowther Homes of £15m. This additional funding will enable Lowther to fund the development of 300 properties for mid market rent in Glasgow over the five year period. 150 of these units are assumed to be directly funded using the additional on lend with the remaining properties funded through additional private finance

Our new Group Strategy, *Your Home, Your Community, Your Future*, includes an aim to deliver 5,500 new homes over the five year period to 2026. Our current loan covenants provide capacity for the 2,743 units above in the RSL Borrowing Group, as well as 810 new homes in DGHP and 300 in Lowther Homes. 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 1,650 homes.

The table above highlights that between 2021-22 and 2025-26, we assume £177m of grant income to support these 2,743 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

Covid-19 continues to have a significant economic impact at a global and domestic level. Inflation levels were low prior to the emergence of the virus with lockdown restrictions and the knock on effect on businesses have causing CPI to fall to 0.6% in December 2020, a reduction from a rate of 1.3% in December 2019. Despite short term demand restrictions, market views on underlying economic prospects remain strong and, on relaxation of the restrictions, prices are expected to be driven up in the coming year. The longer term outlook shows cost inflation moving back to higher levels as more normal trading conditions return through 2021/22. We have held our expectation for cost inflation to move upwards and our forecasts reflect a rate of 1.5% in 2021/22 rising up to 3% by 2022/23, with a long term outlook of 2.5% from year 5 onwards, retaining an element of prudence in our forecasts.

The general cost inflation rate assumed within the financial projections together with recent forecast updates from our financial risk advisors, Chatham Financial and from the Bank of England (BOE) are shown in the table below with our assumptions retaining an element of prudence. This will apply to the majority of costs, with the main exception being salary costs which are assumed to increase by 1.5% in years 1 to 3 and 2% each year thereafter.

	2021-22	2022-23	2023-24	2024-25	2025-26
General cost inflation rate	1.50%	3.00%	3.00%	3.00%	2.50%
Market Forecast (CPI)					
Chatham Financial (Jan 21 Update)	*0.50%*	*1.50%*	*2.00%*	*2.00%*	*2.00%*
BOE (Feb 21 Monetary Policy Report)	*0.80%*	*2.10%*	*2.10%*	*2.00%*	*2.00%*

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

	2021-22	2022-23	2023-24	2024-25	2025-26
Turnover	**307,239**	**313,082**	**329,928**	**335,571**	**329,386**
Operating Expenditure	(230,726)	(231,992)	(233,511)	(237,954)	(247,785)
Other Income & Gains	(18,572)	(1,908)	(19,458)	(11,446)	(252)
Operating Surplus	**57,940**	**79,183**	**76,959**	**86,170**	**81,349**
Operating Margin	19%	25%	23%	26%	25%
Gain/Loss on disposal of fixed assets	0	275	8	0	0
Finance Charges	(60,575)	(62,937)	(68,310)	(71,626)	(72,771)
Movement in valuation of social housing properties	21,450	11,705	26,782	26,359	44,121
Total Comprehensive Income	**18,815**	**28,226**	**35,438**	**40,903**	**52,699**

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. Underlying turnover, excluding grant income, is forecast to increase by 15.2% over the period from £263m to £303m.

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 9.8% over the five years.

Operating Surplus (Margin)
It is projected that the RSL Borrower 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 19% and 26% over the five year period. Excluding the impact of grant income and valuation adjustments, the underlying operating margin increases from 12% in 2021/22 to 18% by 2025/26. 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 £18.8m in 2021/22 with this increasing to £52.7m 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

	2021-22	2022-23	2023-24	2024-25	2025-26
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Housing Properties	2,079,862	2,153,548	2,193,676	2,220,261	2,283,039
Investment Properties	115,305	123,729	147,120	170,964	179,874
Other Fixed Assets & Investments	99,917	106,838	114,151	117,453	114,766
Total Fixed Assets	**2,295,084**	**2,384,114**	**2,454,947**	**2,508,678**	**2,577,680**
Debtors Due < 1 year	31,507	31,768	31,287	30,976	31,041
Cash	15,000	15,000	15,000	15,000	15,000
Creditors Due < 1 year	(137,926)	(123,922)	(108,887)	(90,517)	(93,540)
Net current assets/(liabilities)	**(91,419)**	**(77,154)**	**(62,601)**	**(44,540)**	**(47,499)**
Loans	(1,288,059)	(1,363,128)	(1,413,076)	(1,443,965)	(1,457,309)
Pension Liability	11,502	11,502	11,502	11,502	11,502
Other Creditors & Provisions	(2,109)	(2,109)	(2,109)	(2,109)	(2,109)
Long Term Liabilities	**(1,278,666)**	**(1,353,735)**	**(1,403,683)**	**(1,434,571)**	**(1,447,916)**
Net Assets	**925,000**	**953,225**	**988,664**	**1,029,566**	**1,082,265**
Capital & Reserves	**925,000**	**953,225**	**988,664**	**1,029,566**	**1,082,265**

<u>Housing and Investment Properties</u>

Housing and investment properties are projected to increase in value by 17% to just under £2.5bn 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. As approved by the Board, this loan increases by £15m over the five years to £45m.

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 £3m. 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 borrower 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

	2021-22	2022-23	2023-24	2024-25	2025-26
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Turnover (excl Grant)	262,811	269,856	281,058	291,247	302,781
Operating Costs (excl Depreciation)	(141,352)	(138,787)	(138,415)	(139,745)	(146,367)
EBITDA	**121,459**	**131,069**	**142,643**	**151,503**	**156,414**
Capital Stock Improvements	(60,780)	(57,304)	(57,160)	(58,303)	(57,997)
EBITDA MRI	**60,679**	**73,765**	**85,483**	**93,200**	**98,417**
Interest (net)	58,848	61,548	66,864	69,789	70,165
Cover	**1,831**	**12,217**	**18,619**	**23,411**	**28,251**
%age	103%	120%	128%	134%	140%

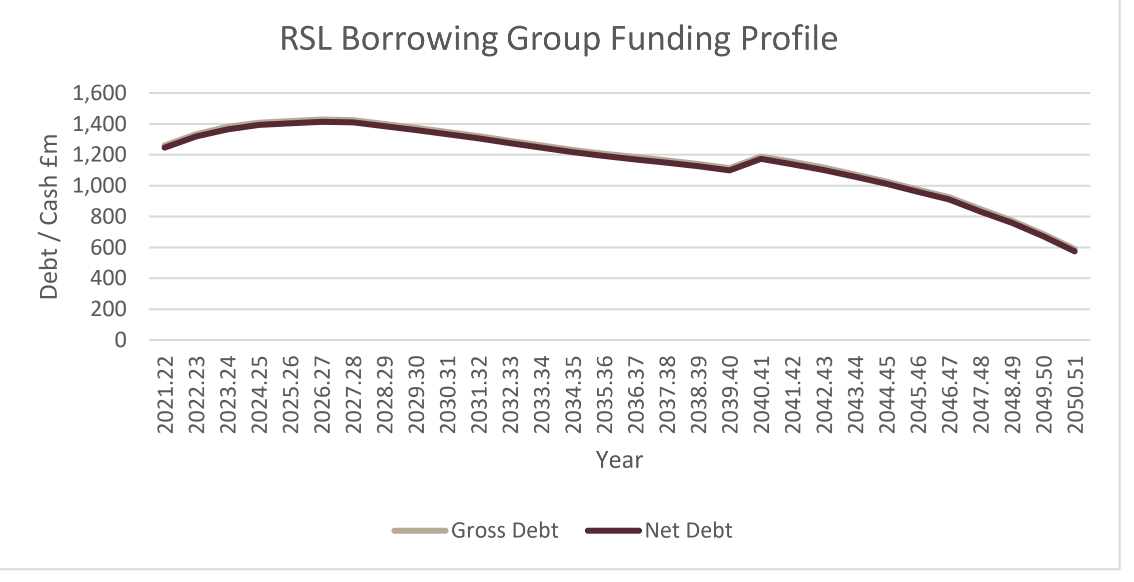
This demonstrates a steady improvement over the period as efficiency savings in operating costs are achieved and additional income is generated from new units and rent increases. Interest costs are forecast to increase over the period as borrowing increases however our projections show there will be 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)	£1,428.7m
Peak Debt (Net)	£1,413.7m
Peak Debt Year	Year 6



Key financial parameters / covenants

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

[redacted]

The table above shows that based on the RSL Borrowing Group projections all funding covenants will be met. The debt service cover ratio (DSCR) is embedded in our EIB loans and measures cash available relative to debt service requirements, defined as interest plus capital repayments. This reduces over the period as our current funding facilities are fully utilised but will increase once new loan facilities are put in place to ensure our liquidity.

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 2019/20 external valuations adjusted for new build properties delivered within the current financial year, project a surplus funding capacity of circa £158m at the start of 2021/22 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 the second update since DGHP joined the Wheatley Group in December 2019. As such they reflect the key tenant promises and the value DGHP expects to gain directly from partnership including:

- additional investment capacity for communities through an accelerated home improvement programme;
- keeping rents more affordable than they would otherwise have been;
- 1,000 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 together with the ambitions set out in our new draft strategy for 2021-2026, *Your Home, Your Community, Your Future*. The updated financial projections for 2021/22 include:

- Funding of £83m net of grant claims over the five years for the completion of 810 new homes for social rent, with a further 200 in development, and a provision for stock rationalisation which will enable the regeneration of our communities.
- Investment of £108m over the first five years in our existing properties to ensure all properties continue to meet regulatory standards and that we deliver the accelerated additional investment promised to customers.
- A cap of rent increases of 2% a year until 2023
- Increased provision for investment in our digital transformation and office accommodation strategies

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 1 April 2021, DGHP will own 10,344 homes for social and mid-market rent comprising 6,995 houses and 3,349 flats (including 4 in a block). No additions or disposals are forecast during 2020/21 so this in line with stock as at 31 March 2020 as reported in the audited statutory accounts. A provision has been made within the projections for the demolition of 350 of these properties, including approximately 128 poorly performing tenement flats mostly in north west Dumfries which are currently held as void and unlettable. It is assumed that 1,010 new homes will be completed by March 2027, with 810 of these within the first five years.

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

Stock Numbers	Forecast						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Opening Units	10,344	10,343	10,340	10,402	10,609	10,904	11,054
New Build	49	47	112	257	345	200	-
Demolition	(50)	(50)	(50)	(50)	(50)	(50)	(50)
Closing Units	**10,343**	**10,340**	**10,402**	**10,609**	**10,904**	**11,054**	**11,004**

Rental Income

Opening rents are based on our average weekly rent per our current rent roll adjusted for a 2% increase in April 2021. In line with ballot commitments made to tenants, rent increases are assumed to be capped at 2% until 2023. In subsequent years, increases have been assumed at 2.9% per annum. This reflects a reduction on the increases assumed in the 2020/21 financial projections of 3.5% and is in line with assumptions across the group. Future increases will however 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.

	2021/22	2022/23	2023/24	2024/25	2025/26 on
Rent Increase	2.00%	2.00%	2.90%	2.90%	2.90%

In addition to social housing, DGHP also collect £368k per annum of rental income in respect of garages and garage sites. This is assumed to increase in line with housing stock. A further £575k is projected to be received from the rental of 101 mid-market properties. In line with grant conditions rent increases for mid-market properties are linked to CPI, assumed at 2%.

Operating Performance

Void losses are assumed at 1% throughout for the core rented stock. Year to date void performance in 2020/21 is 1.62%, however this is primarily due to backlog voids which built up during the spring 2020 lockdown restrictions and the impact of social distancing requirements on letting activity later in the year. Backlog voids have been largely cleared and void loss reported in the month of December 2020 reduced to 1.12% with this expected to reduce further. For the 350 properties 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 2.25% of gross rental income in 2021/22, which is conservative compared to our performance of 1.6% in 2019/20. To manage the impact of Universal Credit this is assumed to increase to 2.5% in 2022/23. Void and bad debt assumptions are shown in the table below.

	2021/22	2022/23	2023/24	2024/25	2025/26
Voids (Retained Properties)	1.00%	1.00%	1.00%	1.00%	1.00%
Bad Debts	2.25%	2.50%	2.50%	2.50%	2.50%

Our financial projections also assume an increase in arrears over the period as a result of universal credit. The assumptions used have been updated to reflect our experience in the current year and expectations going forward

Other Income

In addition to rental income, a further £2.5m is expected to be generated by DGHP in 2021/22 from other income streams including factoring, service charges, grant income for support activities and adaptations and initiatives. The table below provides details of the income received over the five year period.

Other Income	2021/22	2022/23	2023/24	2024/25	2025/26
Service Charges	164	171	175	180	185
Leased Properties	193	193	191	191	191
Factoring	150	155	159	164	168
Aids & Adaptations Grant	500	500	450	450	350
Temporary Accommodation	737	351	0	0	0
Supporting People Grant	119	0	0	0	0
RHI Grants	439	0	0	0	0
Young Person Project	185	93	0	0	0
Total Income	**2,487**	**1,461**	**975**	**985**	**894**

Staff and Other Management Costs

Staff costs have been updated to reflect the new staffing structure put in place in 2020/21 as part of the implementation of our new operating model. This new model enhances services to our customers and includes the introduction of 1:200 patch sizes. A move to Group services has been assumed from April 2021 with employees in support roles, Finance, IT, Legal etc assumed to be seconded to Wheatley Solutions. Total direct staff costs in 2021/22, including on costs are assumed to be £3.3m. No additional direct employee cost savings have been assumed in future years however a provision of £300k has been made in 2021/22 for any further restructuring costs. Salary increases are assumed in line with assumptions across the group at 1.5% for three years and 2% each year thereafter.

Running costs have been updated to reflect current year forecast and the transfer of costs to Wheatley Solutions as part of the move to group services. Savings in respect of our office accommodation strategy and procurement savings result in a reduction in costs from 2022/23 on.

Recharges from Wheatley Solutions for the provision of services such as the 24/7 customer service centre, transactional teams, legal, IT and Finance have been assumed at £4.1m and have been reflected on a financially neutral basis. The table below shows assumed management costs for the five year period.

Management Costs	2021/22	2022/23	2023/24	2024/25	2025/26
Employee Costs - Direct	3,307	3,357	3,407	3,475	3,545
Running Costs - Direct	2,488	2,183	2,263	2,653	2,500
Wheatley Solutions Recharges	4,149	4,246	4,346	4,457	4,559
Management Costs	**9,944**	**9,786**	**10,015**	**10,586**	**10,603**

Repair Costs

Our repairs service is a key priority for our customers so when our existing repairs contracts were due for renewal the decision was made to bring repairs ‘in-house’. Bringing repairs and maintenance in house provided the opportunity to improve services for customers, ensuring most repairs are completed on the first visit. Costs for repairs and maintenance have been assumed in line with previous contract costs with a reduction equivalent to the VAT payable recognised from 2021/22 at a prudent level of £0.5m.

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

Repairs and Maintenance	2021/22	2022/23	2023/24	2024/25	2025/26
Reactive repairs	5,119	5,295	5,479	5,708	5,979
Heating	1,571	1,618	1,667	1,717	1,760
Landscaping	1,014	1,045	1,076	1,108	1,136
Other	428	456	486	544	643
Minor Planned Works	546	562	579	596	611
Compliance	1,413	1,407	1,448	1,645	1,171
Repairs Management	724	735	746	761	776
In house saving	(457)	(470)	(484)	(499)	(511)
Total Repair Costs	**10,359**	**10,647**	**10,997**	**11,581**	**11,564**

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 £4.0m. 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. Covid 19 restrictions resulted in a delay to delivery of these works in 2020/21 however increased provisions have been assumed in the first two years of the projections to ensure these works can be completed as quickly as possible.

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

£000s	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Core Investment	26,307	17,411	12,864	12,607	12,868	82,058
Compliance (Capital)	979	0	0	0	0	979
Customer Voice	1,532	544	544	544	544	3,709
Capitalised Voids	2,900	2,987	3,077	3,169	3,248	15,381
Capitalised Employee Costs	1,098	1,114	1,131	1,154	1,177	5,674
Total	**32,816**	**22,057**	**17,616**	**17,474**	**17,837**	**107,800**

Funding of over £82m has been included over the first five years of the projections for our core investment programme and lifecycle replacements. This includes £20m for replacement of windows and doors, £20m for kitchens, £12m for boilers and heating systems and £4m in respect of ballot promises. A provision of £3.7m has also been made over the 5 years for our new Customer Voice fund. This provision will be used for tenant directed investment works, building customer engagement into our investment programme and ensuring we deliver the projects most important to them.

The investment programme in the later years of the plan has been informed by a detailed stock condition survey, the final version of which was completed by Savills in October 2019.

Investment in new housing

In addition to investment in existing homes, the extra funding made available through the partnership with Wheatley has enabled us to invest in new homes. The restructure of our funding arrangements in December 2019 increased our development capacity and provided sufficient funding to allow for the planned delivery of 1,000 new homes for social rent. Due to the site closures and changes in working practices resulting from the Covid-19 pandemic during 2020/21, delivery of our programme was delayed and we now anticipate 810 new homes will be completed over the first five years of the programme. Development costs and grant have been updated to reflect our latest expectations. These are shown in the table below:

£000s	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Development Cost	16,217	17,106	34,367	52,058	41,795	**161,544**
Grant Income	(6,855)	(10,291)	(20,592)	(26,546)	(14,420)	**(78,705)**
Capitalised New Build Staff	574	583	591	603	615	**2,966**
Capitalised Interest	179	90	306	578	849	**2,003**
Net Cost	**10,116**	**7,488**	**14,673**	**26,694**	**28,838**	**87,808**
Units Completed	49	47	112	257	345	**810**

Investment in non-housing assets

In addition to investment in housing a provision of £9.6m has been made over the five year period for implementation of our digital transformation and office accommodation strategy.

Funding

The financial projections reflect the new funding arrangements put in place in December 2019 following the refinancing of the [redacted] loan. The £130m [redacted] facility (of which only £110m was drawn) was repaid and the following loans were put in place:

- M&G - £[redacted]
- RBS - £[redacted]
- Allia – £[redacted]

The existing [redacted] and [redacted] fixed rate facilities, totalling £55m, remained in place. The financial projections reflect the rates and repayment terms per the funding agreements. Transactional banking is provided by [redacted].

As at 31 December 2020 DGHP had drawn debt of £190.3m and had cash of £66.5m. Our financial projections assume that, given the significant reduction in investment and repairs spend in the current year, DGHP will have a cash balance of £67m as at 1 April 2021.

As a result of the economic disruption caused by Covid-19, interest rates in the UK are at an all-time low. While it is projected that they will eventually increase it is difficult to predict how quickly this will occur. Our financial projections therefore remain conservative, with variable rates (which apply on the [redacted] loan) assumed be 1.50% next year – the actual LIBOR rate is below 0.1% 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.

[table redacted]

Financial projections – next 5 years

The tables below show the projected financial statements for the five year period from 2021 to 2026.

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Net Rental Income	44,596	45,660	47,313	49,196	52,127
Other Income	2,487	1,461	975	985	894
Grant Income	5,290	4,246	11,560	21,197	28,057
Total Income	**52,373**	**51,367**	**59,848**	**71,378**	**81,078**
Management Costs	(9,944)	(9,786)	(10,015)	(10,586)	(10,603)
Repairs & Maintenance	(10,359)	(10,647)	(10,997)	(11,581)	(11,564)
Demolition and ER/VR	(549)	(565)	(814)	(838)	(859)
Wider Role Activities	(885)	(514)	(222)	(228)	(234)
Bad Debts	(1,052)	(1,180)	(1,225)	(1,274)	(1,348)
Depreciation	(11,510)	(12,624)	(13,649)	(14,210)	(14,522)
Operating Expenditure	**(34,298)**	**(35,316)**	**(36,922)**	**(38,717)**	**(39,132)**
Gain on Investment Properties	81	82	82	83	84
Operating Surplus	**18,156**	**16,132**	**23,008**	**32,744**	**42,031**
Operating Margin	**35%**	**31%**	**38%**	**46%**	**52%**
Net Finance Costs	(6,108)	(6,192)	(6,012)	(6,032)	(7,276)
Movement in Value of Social Housing	(28,975)	(15,196)	(17,227)	(31,983)	(42,737)
Total comprehensive income	**(16,927)**	**(5,256)**	**(231)**	**(5,272)**	**(7,983)**

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 our 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.

Operating Expenditure

Staff and running cost assumptions have been updated to reflect implementation of the new operating model including a move to Group Services. Savings in running costs from procurement and our office accommodation strategy have been assumed in the first two years.

Repairs and maintenance and major repairs are assumed to remain relatively stable with the decrease forecast in year five the result of a reduction in compliance works. While the repairs service was brought in house in April 2020, costs have been assumed in line with previous contract levels and do not reflect any additional savings other than a reduction in VAT.

Wider role activities include the cost of the handyperson service, temporary accommodation and young person projects. Costs reduce over the period as the temporary accommodation and young person project are assumed to end in September 2022.

Operating Surplus

DGHP are projected to make an operating surplus in all years with this reducing in year two as a result of a reduction in new build grant recognised and a fall in other income as funding for short term initiatives comes to an end. From year 2 on, operating surplus increases year on year due to increases in grant income recognised in turnover in respect of new build. The operating margin of 35% in 2021/22 is expected to increase to over 50% by 2025/26.

Excluding the impact of grant income and valuation adjustments, underlying operating surplus remains relatively stable over the period with the margin between 23% and 27% in all years.

<u>Funding costs</u>

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. Interest payable remains relatively constant over the first four years as there is sufficient cash to fund the investment and development programme. In year five additional funding is assumed to be drawn.

<u>Comprehensive Income</u>

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				
	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Housing assets	378,753	391,649	415,010	441,247	446,601
Investment Properties	8,163	8,244	8,327	8,410	8,494
Other Fixed Assets	4,851	5,539	5,512	5,221	4,807
Total Fixed Assets	**391,767**	**405,433**	**428,849**	**454,879**	**459,902**
Current Assets	44,388	32,764	19,435	10,592	10,618
Current Liabilities	(23,401)	(29,603)	(38,796)	(44,310)	(30,840)
Net Current (Liabilities)/Assets	**20,987**	**3,160**	**(19,361)**	**(33,718)**	**(20,223)**
Long term liabilities	(192,106)	(193,202)	(194,328)	(211,272)	(237,774)
Provisions (LGPS Pension)	(2,765)	(2,765)	(2,765)	(2,765)	(2,765)
Net Assets	**217,883**	**212,626**	**212,395**	**207,124**	**199,141**
Total Reserves	**217,883**	**212,626**	**212,395**	**207,124**	**199,141**

The information presented in the table above includes inflation.

Fixed Assets

In accordance with our accounting policy housing properties have been forecast at valuation with the opening valuation based on the figures reported in DGHP's audited statutory accounts. Over the period shown above, housing and investment properties are expected to increase by 21% 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 £63.8m as at 1st April 2020 with this forecast to increase to £67.2m by 31st March 2021 as a result of reductions in repairs, investment and development spend in 2020/21 due to Covid-19 restrictions. 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. The measure of Revenue Surplus removes items that are non-cash and/or unrelated to operations, such as grant income and property valuation movements, which, after the deduction of capital investment in existing properties, is used to assess the funds available to meet interest payments and pay for all costs related to current stock.

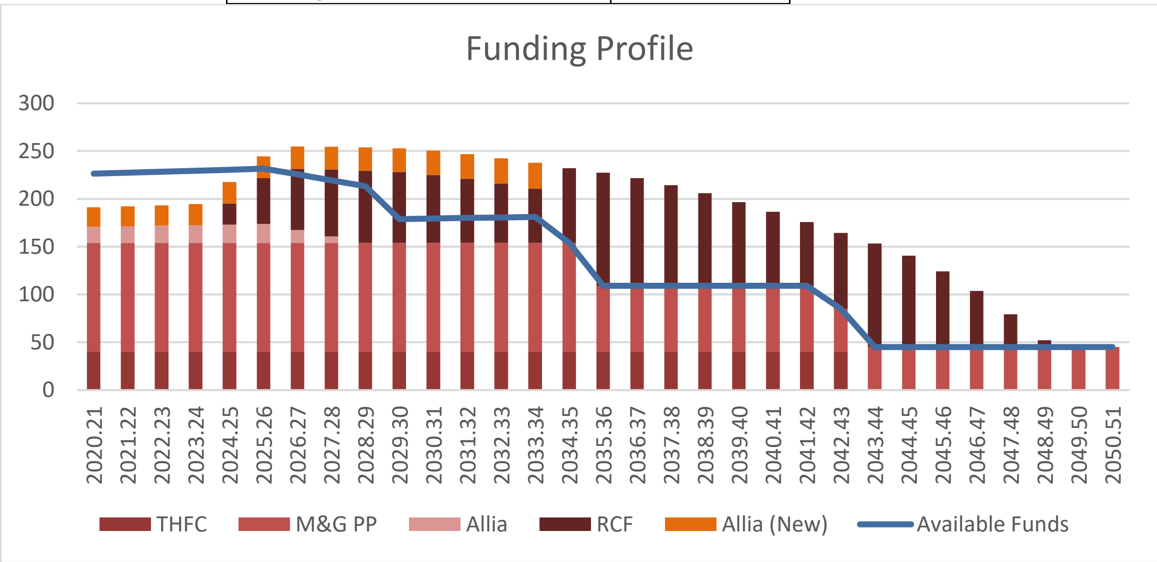
Cash Flow Strength	Forecast				
	Year 1 2021/22 £'000	Year 2 2022/23 £'000	Year 3 2023/24 £'000	Year 4 2024/25 £'000	Year 5 2025/26 £'000
Revenue Surplus	24,295	24,428	25,015	25,674	28,412
Less Capital Investment (Existing Properties)	(32,816)	(22,057)	(17,616)	(17,474)	(17,837)
Revenue Surplus less Capital Investment	**(8,521)**	**2,372**	**7,399**	**8,200**	**10,574**
Net Finance Costs	(6,108)	(6,192)	(6,012)	(6,032)	(7,276)
Cover	**(14,629)**	**(3,821)**	**1,387**	**2,167**	**3,298**

Due to the high level of investment assumed in existing homes, Revenue Surplus less Capital Investment is negative in the first year. As income increases and investment required reduces the measure becomes positive and by 2023/24 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 2049/50 of the plan with £41.4m of cash generated by year 30.

Funding and debt profile

The financial projections reflect the M&G £114m private placement, £35m revolving capital facility, £35m facility from Allia and £40m THFC facility. The table and graph below show the key funding indicators and funding profile by facility for DGHP

Debt indicator	Value
Peak debt (net)	£242.7m
Peak debt year	2026/27
Debt repayment year	2049/50
Closing cash	£41.4m



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 2027/28 of the plan and thereafter the debt levels reduce. By 2049/50, there will be sufficient cash to repay debt with an estimated closing cash balance of £41.4m.

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 :-

[table redacted]

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

5 Commercial Subsidiaries

5.1 Lowther Homes

[redacted

5.2 Wheatley Care

[redacted]

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, 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 is 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.

The provision of services to DGHP has been reflected from the start of 2021/22 and it has been assumed that staff will be seconded from DGHP to Wheatley Solutions from 1 April 2021. Corporate and back office costs for DGHP are included in the projections and the amounts included in the financial projections for DGHP shared services are assumed to be recharged to DGHP in full on a cost neutral basis.

An application 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 was approved during 2020/21. Both schemes were previously offered by YourPlace but transferred to Solutions in December 2020. Commission on insurance activities is now recognised as income with a corresponding reduction in the recharge to Lowther for their share of Wheatley Solutions services.

The table below shows forecast income and expenditure over the five year period.

Wheatley Solutions	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Income					
Group recharges	30,698	31,504	31,909	31,972	32,691
Regulated insurance activities	4,083	4,083	4,083	4,083	4,083
Total	**34,781**	**35,586**	**35,992**	**36,055**	**36,774**
Costs					
Staff	17,785	17,848	18,044	18,405	18,773
Running Costs	13,384	14,127	14,336	14,038	14,389
Regulated insurance activities	3,609	3,609	3,609	3,609	3,609
Total	**34,778**	**35,583**	**35,989**	**36,052**	**36,771**
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. In total, across the Group the financial projections provide for a 5 year IT capital investment programme of £39.5m, an increase of £20.7m from the 2020/21 financial projections. This additional investment is in recognition of the key role technology has in supporting the delivery of the key strategic aims in the Group's 2021-26 strategy. Alongside the digital aspirations for Group services to customers and staff, the funding also provides for a safe, secure and reliable technology service.

The table below outlines the forecast IT capital investment over the next five years by key theme. This is recharged in full to all Group subsidiaries

Wheatley Solutions	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	Total £000
Investment Themes						
Better online services	815	1,755	380	1,175	2,325	**6,450**
Housing service delivery	65	875	470	165	165	**1,740**
Bringing IT home	1,048	1,020	1,060	1,715	460	**5,303**
Repairs	400	1,375	965	1165	965	**4,870**
W.E. Care	225	120	75	250	25	**695**
Common systems	2,874	900	850	400	0	**5,024**
Core platforms and security	1,480	1,850	2,450	1,700	650	**8,130**
Other	1,463	1,463	1,463	1,463	1,463	**7,313**
Total	**8,370**	**9,358**	**7,713**	**8,033**	**6,053**	**39,25**

6.3 Wheatley Foundation

The Wheatley Foundation was established as a charitable foundation, providing a high profile vehicle within the Group through which we support communities by driving forward and sustaining our community benefit activities. Having a charitable foundation enables the expertise and track record that exists in many Group subsidiaries to be shared more widely for the benefit of customers across the group. The Foundation's brand and identity develops to reinforce the Group's reputation for supporting better lives. This is evidenced by the high profile external funding awards secured previously from the Scottish Government and National Lottery.

The Foundation plays a key role in the Group's response to the Covid-19 pandemic and, in an extension of the EatWell programme, the Foundation supported 9,736 households for a period of up to 6 weeks with either essential food packages or supermarket vouchers at a value of £1,238k to customers in the period up to the end of December 2020, redirecting the resources at their disposal to where they were needed most in our communities.

The Foundation's income is primarily received from other companies within the group and includes gift aid payments from Lowther Homes and DGHP, as well as contributions from the RSLs. The other source of funding is by way of external grants. External grants include those that have either been awarded already such as the final year of the three year Scottish Government partnership award of £250k for 2021/22, or are grants that we have confidence will be awarded for 2021/22 in line with 2020/21 awards such as the Skills Development Scotland and Glasgow Guarantee grant. We also set targets for additional external grant funding and a number of discussions are ongoing with partners to secure funding for next year and beyond, and to look for other publicly available sources of funding to match fund our contributions in specific projects.

The income received is used to fund a number of projects and initiatives that will benefit customers and communities across the group. These initiatives include projects such as Wheatley Works, My Great Start, Home Comforts, welfare benefit and fuel advice, Eat Well, Financial Inclusion and a group wide modern apprentice programme. The table below shows the projected income and expenditure over the five year period.

Foundation	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Income					
Gift Aid from Lowther & DGHP	1,539	1,680	1,700	1,700	1,800
Contribution from RSLs	2,464	2,583	2,602	2,622	2,641
External grant	1,010	1,010	1,010	1,010	1,010
Total income	**5,013**	**5,273**	**5,312**	**5,332**	**5,451**
Expenditure/provisional allocations					
Overheads	1,085	1,101	1,118	1,140	1,162
Tackling Poverty & Social Inclusion	2,371	2,367	2,414	2,470	2,590
Education	251	210	160	160	160
Training & Employment	1,406	1,418	1,581	1,594	1,618
Sports/Arts	20	21	22	22	23
Digital Inclusion	64	66	68	70	72
Total expenditure	**5,198**	**5,183**	**5,362**	**5,456**	**5,624**
Net cash from operating activities	**(185)**	**90**	**(50)**	**(124)**	**(173)**
Opening cash	1,103	918	1,008	959	835
Closing cash	**918**	**1,008**	**959**	**835**	**661**

It is assumed that expenditure will be broadly equivalent to income each year, with no significant surpluses retained.

7. City Building Glasgow (Joint Venture)

To follow

8 Risk Analysis

The key challenges for WHG include:

- How we manage the impact of further significant disruption to our operations as a result of Covid-19, including the impact on our customers' ability to pay their rent, further delays to delivery of our investment programme and the potential for additional "catch up" costs once restrictions are eased.
- How we best mitigate the risk of the current economic climate, including the ongoing impact of Covid-19 and 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 dependency on sufficient grant being available to support the programme

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.

RSL Borrowing Group

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 and other discretionary spend 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	£2.0-£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	£1.5m pa	Immediate
Development Fund	Acquisition of potential sites for development could be stopped and financial support for new schemes reduced	£0.5m	Immediate, short term
Tier 2			
Restructure and reduce Tenancy Support Service (£1.5m)	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 1.5% to 1% or applying a pay freeze would allow immediate cost savings without reducing posts or service	£0.7m	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.	£1.2m	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**	**£26,050**	**£18.3m (2023/24)**	**£29.3m (2027/28)**	
Combined risks							
1	Inflation increases to 3.5% in years 2-5 with no change to rent increases, interest rates are 1% higher than assumed over the same period and bad debts are 0.5% higher	N	Y	£26,659 (2026/27)	£13.2m (2023/24)	£17.9m (2027/28)	The combination of higher cost inflation and limiting rent increases at 2.9% 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.
2	Interest rates reduce in line with Chatham forecasts in years 1-5, rent increases reduced to 2%	Y	Y	£26,023 (2026/27)	£20.8m (2023/24)	£20.8m (2027/28)	Reduced funding costs as a result of lower variable interest rates offsets decrease in income. Covenants and golden rules can 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
3	Major contractor fails and grant availability for mid market rent ceases from 2021	N	Y	£26,633 (2026/27)	£17.1m (2023/24)	£26.4m (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.
Economic risks							
4	Inflation increases to 3.5% in years 2-5, 2.9% rent cap maintained	N	Y	£26,255	£17.1m (2023/24)	£26.3m (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.
5	Inflation increases to 3.5% in all years, rent increase remains inflation	Y	Y	£25,992	£17.8m (2023/24)	£38.7m (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
6	Inflation reduces to 2% from year 3 on	N	Y	£26,246	£16.4m (2023/24)	£19.4m (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
7	Interest rates are 1% higher than assumed from year 2	N	Y	£26,233	£16.1m (2023/24)	£23.7m (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.
8	Rent increases limited to cost inflation in all years	Y	Y	£26,073	£18.3m (2023/24)	£25.7m (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							
9	Performance – bad debts increase by 1%	N	Y	£26,366	£15.2m (2023/24)	£24.4m (2027/28)	Reduction in net income received increases debt requirement and reduces headroom on covenants however covenants can still be met
10	Staffing and running costs are £2m higher from year 2 on	N	Y	£26,288	£15.9m (2023/24)	£25.7m (2027/28)	Increased cost reduces operating surplus and increases funding. Covenant headroom is reduced but can still be met
11	Revenue repair costs are 10% higher from year 1 on	N	Y	£26,575	£13.4m (2023/24)	£21.6m (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
12	No grant available for MMR from 2021	N	Y	£26,433	£17.8m (2023/24)	£27.3m (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.
13	New build programme delayed (300 units by one year)	Y	Y	£26,056	£18.8m (2023/24)	£30.1m (2027/28)	Delay in development of 300 properties results in a reduction in debt requirement in the short term and increases headroom in interest cover. Over the longer term there is an adverse impact from the delay in receiving rents.
14	New build programme accelerates (250 units by 2 years)	N	Y	£26,246	£18.2m (2023/24)	£29.5m (2027/28)	Development of 250 units two years earlier than programmed results in additional debt and a breach in our debt per unit golden rule. This could be mitigated by reducing other capital spend.
15	Major contractor (representing 25% of our programme) fails resulting in delay and additional costs	N	Y	£26,240	£17.7m (2023/24)	£28.4m (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

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
							our debt per unit golden rule, covenants could still be met.

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. As the table below demonstrates even in the event of an extreme downside scenario there are sufficient mitigating actions available to prevent a breach.

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
Extreme downside scenario							
1	Inflation increases to 3.5% in years 2-5, rent increases limited to 2% over the same period and interest rates increase to 5%	N	N	£27,355 (2026/27)	-	£8.7m (2027/28)	The combination of higher cost inflation and limiting rent increases at 2% plus additional interest costs reduces surplus and increases debt. Headroom reduced on interest cover and this is projected to breach by 2033/34. Maximum DPU is also in excess of covenant. Significant mitigating actions will be required.

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
2	With mitigations	Y	Y	£26,088 (2026/27)	£18.0m (2024/25)	£22.8m (2027/28)	All tier 1 mitigations required in addition to reduction in pay uplifts to previous assumptions, £2m staff saving, reduction in TSS and reduction/reprofiling of investment programme.

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 £2,061m 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 £158m of unsecured assets at the start of 2021/22, 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. House prices (which influence in part the MV-ST valuations) in 2020 have remained strong as a result of the LBTT freeze and pent-up demand following the initial lockdown, with analysts forecasting this position to continue into 2021.

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 development and extension of the in house repairs service and transformation to a new operating and service model. The DGHP 2021/22 Financial Projections include detailed sensitivity analysis showing the impact of these risks on the key financial parameters, including funding covenants.

Lowther Homes

The key risks for Lowther Homes relate to the private letting market and whether there is sufficient demand for Lowther's properties at rental levels assumed in the financial projections. The Lowther Homes 2021/22 Financial Projections include detailed sensitivity analysis showing the impact of these risks on the key financial parameters, including funding covenants.

Wheatley Care

While Wheatley 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 Wheatley Care's surplus and reserves is included within the detailed sensitivity analysis within the Wheatley Care 2021/22 Financial Projections.

Better homes, better lives
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GHA Financial Projections
2021/22

Wheatley Group

Classified as Internal

1 Headlines

The emergence of the Covid-19 pandemic had a significant impact on the day to day operations of the business with the varying levels of restrictions imposed by UK and Scottish Government throughout 2020/21 requiring us to change and adapt the way we deliver services to our customers. The financial position of GHA has remained strong to date and financial projections for 2021/22 assume the return of our usual service model with the relaxation of the rules, while remaining well placed to respond to restrictions being in place for longer. Provision has been retained in the projections for a higher number of tenants moving onto Universal Credit as an expected tightening of the job market impacts customers' ability to keep their rent accounts up to date and a higher allowance has been set aside to cover PPE costs for staff in year 1.

The updated financial projections for 2021/22 and beyond include:

- Provision to deliver 1,182 additional homes for social and mid-market in the first 5 years of the plan with 882 delivered directly by GHA through the new build (876) and the acquisition (6) programmes. An increase in GHA's Loan to Lowther of £15m is assumed to allow delivery of a further 300 MMR properties.
- £225m of investment in our existing housing stock in the first 5 years of the projections, including a provision of £21m for our new customer directed investment fund, Customer Voice.
- Increased provision for investment in our digital transformation and office accommodation strategies
- £11.0m of donations to the Wheatley Foundation as well as £1.7m Better Lives funding across the first 5 years of the plan.
- Significant efficiency savings in our management costs delivered through our new operating model. This will result in an improving operating surplus in the first 5 years of the projections. By year 2 of the financial projections, GHA is expected achieve the key milestone of generating 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 debt of £968.7m is forecast to be reached in 2024/25 (year 4)

The GHA Board agreed at the October 2020 Board meeting to the possible transfer of Cube properties in Glasgow. If this proceeds 2,741 social rent properties and 27 mid-market rent properties will transfer to GHA. Our financial projections including GHA's share of the stock include:-

- Rent increases for the transferring stock capped at 1% for 3 years from April 2021
- Total of £250m for investment in all existing housing stock in Glasgow, of which £25m will be earmarked for the Cube properties, with provision for the regeneration of the Wyndford estate.

The revised financial projections, including the transfer stock, show GHA will meet all key financial indicators including having sufficient asset cover to support the increased level of borrowing and will generate sufficient cash from underlying business operations to meet the cost of borrowing and investment by year 3 (2023/24).

2 Key assumptions

The key assumptions in the GHA 2021/22 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 2021/22 financial projections have been derived using the audited stock numbers at 31 March 2020 as per the statutory accounts, adjusted for forecast additions and disposals in 2020/21. 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 2021/22 projections assume an opening balance of 39,882 properties at 1 April 2021:

- The opening stock numbers are net of 124 properties which are assumed to have been handed over to the contractor for demolition in 2020/21. These relate to 120 units at Gallowgate and a further 4 properties on Carntyne Road. Demolition of these properties is assumed to complete in 2021/22.
- In 2020/21 240 properties are expected to complete at our developments at Linkwood, Cranhill, Scaraway and Auchinlea. A further 627 homes are assumed to complete over the period to 2027/28, with 297 of these completing in the first 5 years.

Funding for 6 individual asset purchases is included in 2021/22. 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 40,185 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 2021 GHA are expected to own 574 mid–market rent ("MMR") properties following completions in the current year at Baillieston and Inglefield. Over the first 5 years of the projections a further 579 units are expected to be completed, taking our MMR portfolio to 1,153 properties by 31 March 2026.

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

Stock Numbers	**Forecast**				
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Opening Units	40,456	40,847	40,963	41,110	41,288
Additions - Acquisitions	6	-	-	-	-
Additions - Social Rent	93	50	24	80	50
Additions - MMR	292	66	123	98	-
Closing Units	**40,847**	**40,963**	**41,110**	**41,288**	**41,338**

Anticipated handover of units at the Kennishead new build development in early 2021/22 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 £87.74. This has been adjusted for a proposed 1.7% general rent increase in April 2021, subject to board approval. An increase of 2.4% has been reflected in 2022/23 with increases thereafter assumed at 2.9% as noted below:

Rent increases	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
Percentage rent increase assumed	1.70%	2.40%	2.90%	2.90%	2.90%

The exception to this are 3,319 properties, predominantly MSFs, which are assumed to have rent increases capped at 1% for 3 years from April 2021.

2.3 Other Income

A further £7.9m is expected to be generated by GHA in 2021/22 from other income streams, rising to £12.0m by year 5 of the projections (2025/26). 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.

In light of the ongoing restrictions resulting from Covid-19 and the impact this has had on services, our financial projections make provision for a reduction in income from our commercial properties and district heating scheme in the first year. Over the 5 year period other income in total is projected to increase by £4.0m. This 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 £6.4m by 2025/26, an increase of £2.9m over the 5 year period.

Other Income	Forecast				
	2021/22	2022/23	2023/24	2024/25	2025/26
	Year 1	Year 2	Year 3	Year 4	Year 5
External					
Heat with rent	375	480	617	794	1,021
Furnished Lets	16	0	0	0	0
Hillpark District heating	167	230	237	244	250
Garage income (net of voids)	386	396	407	419	431
Owners Capital Works	279	288	296	305	313
Wayleave Income (Virgin)	150	150	0	0	0
Commercial - Radio Masts	300	150	150	75	75
Commercial - Properties	1,298	1,528	1,748	1,801	1,855
Initiatives - Solar PVs	395	403	410	418	423
Internal					
MMR lease income	3,428	4,545	5,272	5,781	6,360
Commercial - Wheatley House & Lipton	1,416	1,438	1,469	1,502	1,535
TOTAL	**8,210**	**9,606**	**10,607**	**11,338**	**12,263**
Owners Capital Costs offset against income	(279)	(288)	(296)	(305)	(313)
NET INCOME	**7,931**	**9,318**	**10,311**	**11,033**	**11,951**

2.4 Cost inflation assumptions

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

	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
Cost inflation assumption (excluding employee costs)	1.50%	3.00%	3.00%	3.00%	2.50%

Covid-19 continues to have a significant economic impact at a global and domestic level. Inflation levels were low prior to the emergence of the virus with lockdown restrictions and the knock on effect on businesses causing CPI to fall to 0.6% in December 2020, a reduction from a rate of 1.3% in December 2019. Despite short term demand restrictions, market views on underlying economic prospects remain strong and, on relaxation of the restrictions, prices are expected to be driven up in the coming year. The longer term outlook shows cost inflation moving back to higher levels as more normal trading conditions return through 2021/22. We have held our expectation for cost inflation to move upwards and our forecasts reflect a rate of 1.5% in 2021/22 rising up to 3% by 2022/23, with a long term outlook of 2.5% from year 5 onwards, retaining an element of prudence in our forecasts.

2.5 Operating performance

Void loss as a proportion of rental income has increased from 0.6% in 2019/20 to 1.12% in the current year to date largely as a result of Covid-19. The financial projections assume that void losses begin to return to previous levels in 2021/22 with the 1% rate assumed reflecting a prudence compared to historic performance.

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 to acknowledge the impact of both Covid-19 and welfare reform has on our tenants. Our Business Plan assumptions on movements in arrears as a result of universal credit have been updated to reflect our experience in the current year and expectations going forward :-

- A total of 10,500 tenants previously receiving housing benefit will move to UC over the five year period (12,000 tenants assumed to have already moved to UC);
- 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.

An additional provision for increased arrears has also been made in 2021/22 in recognition of potential increases in unemployment and an increase in tenants moving to benefits for the first time.

2.6 Management costs

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

Operating Costs (including inflation)	Forecast				
	Year 1 2021/22	**Year 2 2022/23**	**Year 3 2023/24**	**Year 4 2024/25**	**Year 5 2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Direct management costs – GHA staff and running costs	39,775	38,062	37,539	38,220	38,862
Recharges from Wheatley Solutions (including Transactional Hub)	19,216	19,735	19,928	19,827	20,266
Total management costs	**58,992**	**57,797**	**57,468**	**58,048**	**59,128**

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 implementation of our new operating model and includes savings from our office accommodation and digital transformation strategies in addition to procurement savings. In real terms, management costs are expected to fall by £4.5m between 2021/22 and 2025/26; a 7.6% reduction.

2.7 Repair Costs

Our customer satisfaction surveys consistently show a direct link between the repairs service tenants receive and their satisfaction levels. While Covid-19 restrictions resulted in changes to the repairs service and a reduction in the number and types of repairs we were able to deliver in 2020/21, our financial projections reflect previous levels of funding required to meet the increasing legislative requirements that the business must comply with (e.g. emergency lighting, window safety catches, TMVs, HIU inspections) and the exceptional service our customers expect. This equates to average funding of £847 per property in 2021/22 increasing by inflation to £955 per property in 2025/26.

Repair costs (including inflation)	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Total repair costs	**33,833**	**34,957**	**36,397**	**37,213**	**38,356**
Average no. of units	39,932	40,006	40,043	40,095	40,160
Average repair cost per unit £	**847**	**874**	**909**	**928**	**955**

2.8 Demolition costs

The financial projections include a provision of £0.5m in respect of our demolition programme. This funding primarily covers the contract costs to complete the demolition of our properties at Gallowgate. These properties were fully cleared in 2020/21 following the completion of new build properties at the adjacent site and demolition commenced in Q4 of that year. The costs of demolition are wholly funded by GHA and reduce the operating surplus in the year 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 each of the first three years of the plan. This funding helps those in financial difficulty, particularly those whose employment status has changed or whose benefits may change as a result of moving to universal credit.
- Better Lives Funding of £500k in 2021/22 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 £1.2m for the Tenancy Sustainment service that Loretto Care delivers on our behalf.
- Donations to the Wheatley Foundation totalling £11.0m over the first 5 years of the plan. 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. This is largely funded through the redirection of interest receivable on the convertible debt instrument owed by Lowther Homes to GHA. This equates to £1.8m per annum with an additional top up provision from GHA of

approximately £250k per annum. Additional interest assumed to be received in relation to the £15m increase in on lend to Lowther will also be redirected to the Foundation and will replace additional contributions.

2.10 Operating Cost per Unit

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

Operating Costs	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
Operating Costs exc depn (£'000)	103,725	102,453	101,646	102,307	106,997
Average no. of units in year	39,932	40,006	40,043	40,095	40,160
Operating Cost per unit (£)	**2,598**	**2,561**	**2,538**	**2,552**	**2,664**

The underlying operating cost per unit, in real terms, is assumed to decrease by 6.8% over the first five years, a saving of £176 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; over £225m 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 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Core Investment Programme	18,519	15,823	18,605	17,080	16,128
Capitalised Compliance Costs	2,410	2,674	1,324	1,264	694
Customer Voice Fund	5,000	4,000	4,000	4,000	4,000
Capitalised Void Costs	7,302	7,509	7,723	7,947	8,141
Capitalised Repairs	3,500	3,605	3,713	3,824	3,920
Disabled Adaptations	1,537	1,537	1,537	1,583	1,623
Capitalised Employee Costs	2,655	2,624	2,611	2,663	2,716
Capitalised Fixed Overhead	6,166	6,351	6,542	6,738	6,906
Total Capital Investment	**47,088**	**44,123**	**46,054**	**45,099**	**44,128**

Funding of over £86m is included in the business plan over the first 5 years for the core investment programme and the replacement of components. This includes £22.7m across gas and electric heating and connected response, £15.1m for lift replacements and other mechanical and electrical works and £8.7m for new kitchens. A provision of £21m has also been made over the 5 years for our new Customer Voice fund. This provision will be used for tenant directed investment works, building customer engagement into our investment programme and delivering the projects most important to them.

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 was brought in-house during 2020/21 and is carried out by the void team within the Wheatley 360 wrap-around service structure.

Scottish Government and the Scottish Housing Regulator published further guidance on the achievement of EEESH2 which requires, where possible, all properties to be bought up to EPC band B by 2032. Additional provision for capital investment has been made over the life of the plan to bring the 30 year average investment per property up to £35k, which aligns with the level of investment JLL, the Group's valuation experts, have estimated when undertaking the most recent valuation of housing properties.

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, development costs of £130.4m have been reflected. These costs are assumed to be part funded by grant income of £59.9m, with the total net cost to GHA being £70.5m. Funding of £0.3m for other property acquisitions has also been reflected in the plan, as well as £1.25m 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 2021/22	**Year 2 2022/23**	**Year 3 2023/24**	**Year 4 2024/25**	**Year 5 2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Development Costs	52,744	31,110	15,176	11,821	19,588
Development Fund	450	450	350	0	0
Capitalised Employee Costs	2,220	2,111	2,038	2,079	2,120
Acquisitions	310	0	0	0	0
Grant Income	(28,458)	(6,728)	(6,141)	(6,233)	(12,292)
Total investment in new properties	**27,266**	**26,943**	**11,422**	**7,667**	**9,416**
*Acquisitions and completions in year***	*391*	*116*	*147*	*178*	*50*

**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.

In addition to the 882 properties GHA will directly deliver over the 5 year period, the financial projections reflect an increase in GHA's loan to Lowther of £15m. This additional funding will enable Lowther to fund the development of 300 properties for mid-market rent in Glasgow over the 5 year period. Of these units, 150 are assumed to be directly funded using the additional on lend with the remaining properties funded through additional private finance.

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. 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 rate assumed within the 2021/22 financial projections has been updated to reflect the current low variable interest rates, together with the rates achieved on fixed rate arrangements put in place by WFL1 during 2020/21. The revised rates assumed on group funding and for interest receivable on cash balances are shown in the table below.

Interest rate assumptions	**Forecast**				
	Year 1 2021/22	**Year 2 2022/23**	**Year 3 2023/24**	**Year 4 2024/25**	**Year 5 2025/26**
Interest Payable (Group funding)	4.95%	5.00%	5.10%	5.10%	5.10%
Interest Receivable	0.25%	0.50%	0.75%	1.50%	2.00%

3. Financial projections – next 5 years

3.1 Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Net rental income	185,578	190,083	196,049	201,246	207,500
Other Income	7,931	9,318	10,311	11,033	11,951
Grant Income	28,859	8,418	16,209	10,906	3,990
Total Income	**222,368**	**207,820**	**222,569**	**223,185**	**223,441**
Management and service costs	(58,992)	(57,797)	(57,468)	(58,048)	(59,128)
Repairs and maintenance costs	(33,833)	(34,957)	(36,397)	(37,213)	(38,356)
Demolition and ER/VR costs	(3,259)	(2,104)	0	0	(2,728)
Wider Role and Strategic Initiatives	(3,943)	(3,812)	(3,882)	(3,045)	(2,665)
Bad Debts	(3,698)	(3,784)	(3,899)	(4,001)	(4,119)
Depreciation	(64,621)	(66,784)	(67,667)	(70,444)	(73,558)
Operating Expenditure	**(168,346)**	**(169,237)**	**(169,312)**	**(172,751)**	**(180,555)**
Revaluation of investment properties	(20,072)	(6,526)	(19,957)	(8,254)	1,740
Operating Surplus	**33,950**	**32,057**	**33,299**	**42,179**	**44,627**
Operating Margin	**15%**	**15%**	**15%**	**19%**	**20%**
Net Finance Costs	(46,831)	(49,423)	(51,753)	(52,406)	(52,652)
Surplus/(Deficit)	**(12,881)**	**(17,366)**	**(18,454)**	**(10,227)**	**(8,025)**
Revaluation of housing properties	23,394	34,968	41,449	39,545	46,133
Total comprehensive income	**10,513**	**17,603**	**22,995**	**29,319**	**38,109**

The information presented in the table above includes inflation.

Income

Rental income net of void losses increases over the five year period due to assumed rent increases and growth in our asset base as a result of the development programme.

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 £4.0m over the first 5 years of the projections due primarily to increased lease income.

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 with respect to the new build programme. This is recognised in the income statement at the handover date of properties. As a result, the level of grant income fluctuates significantly across the five years 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 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 £17.3m 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. A revaluation loss on these properties is forecast in each of the first 4 years of the projections. Despite this however, 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 £25.2m (13%) in 2021/22 to £38.9m (18%) in 2025/26.

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Total Income	193,509	199,402	206,360	212,279	219,451
Operating Expenditure	(168,346)	(169,237)	(169,312)	(172,751)	(180,555)
Operating Surplus	**25,163**	**30,164**	**37,048**	**39,528**	**38,896**
Operating Margin	13%	15%	18%	19%	18%

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 assumed valuation of new build properties.

3.2 Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Housing assets	1,438,153	1,481,649	1,497,307	1,515,605	1,560,418
Other Fixed Assets	61,390	63,997	65,642	65,453	63,083
Investment Properties	64,488	67,367	74,364	81,925	83,863
Lowther Investment	8,387	8,387	8,387	8,387	8,387
Total Fixed Assets	**1,572,417**	**1,621,400**	**1,645,700**	**1,671,370**	**1,715,750**
Pension Asset	13,585	13,585	13,585	13,585	13,585
Current Assets	58,356	63,096	69,245	72,271	73,131
Current Liabilities	(64,654)	(62,724)	(52,484)	(47,761)	(56,063)
Net Current (Liabilities)/Assets	**(6,298)**	**372**	**16,761**	**24,510**	**17,068**
Long term liabilities	(952,513)	(990,563)	(1,008,257)	(1,012,357)	(1,011,187)
Other Provisions	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Net Assets	**626,096**	**643,699**	**666,694**	**696,013**	**734,122**
Total Reserves	**626,096**	**643,699**	**666,694**	**696,013**	**734,122**

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 five 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.

<u>Other Fixed Assets</u>

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

<u>Investment Properties</u>

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.

<u>Net Current Assets</u>

Current assets include rent arrears, trade debtors and cash, together with the intercompany balance relating to the loan to Lowther. Arrears are expected to increase from current year levels in 2021/22 following the continued roll out of universal credit. This position is then expected to improve as these debts are recovered. The remaining movement in current assets relates to the increase in lending to Lowther.

Current liabilities fluctuate over the period primarily as a result of the inclusion of grant received in respect of the new build programme. This is held as deferred income in the balance sheet until the units complete and it can be recognised in Turnover.

<u>Long Term Liabilities</u>

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 until year 4 before reducing in 2025/26. Peak debt of £975.7m is reached in 2024/25, with repayments commencing from year 5 onwards.

<u>Reserves</u>

Reserves are forecast to increase over the five years as assumed increases in housing property valuations offset losses generated after paying our costs of borrowing.

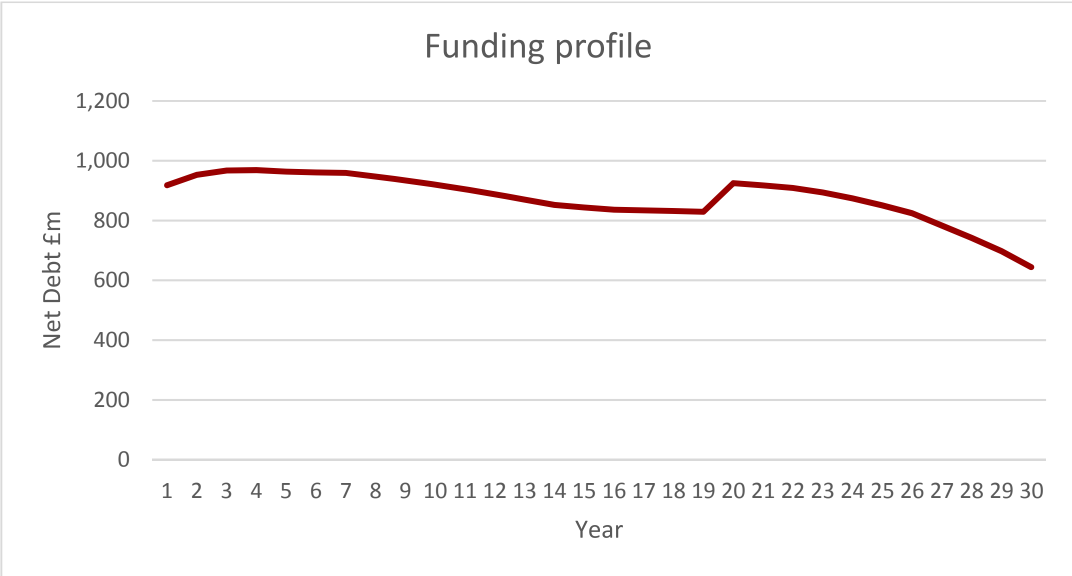
3.3 Statement of Cash Flow

Cash Flow	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Net Cash from Operating Activities	89,784	96,948	104,715	109,972	112,454
Core & Other Capital Expenditure	(59,234)	(53,093)	(52,247)	(50,404)	(48,207)
New Build Expenditure (net of grant)	(27,266)	(26,943)	(11,422)	(7,667)	(9,416)
Increase in loan to Lowther	(500)	(4,600)	(6,200)	(3,700)	-
Net Cash after Investing Activities	**2,783**	**12,312**	**34,845**	**48,201**	**54,831**
Net Finance Costs	(46,831)	(49,423)	(51,753)	(52,406)	(52,652)
Net Movement in Cash	**(44,048)**	**(37,111)**	**(16,909)**	**(4,205)**	**2,179**

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 reaches the maximum required in year 4 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 Key Financial Parameters

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. The graph below shows GHA's projected debt requirement over the 30 years. This shows a maximum funding requirement of £975.7m (£968.7m net of cash) in year 4 (2024/25). From year 5 on debt, there is sufficient cash generated to service debt and begin making repayments. The increase in year 20 relates to repayment of the £100m Contingent Efficiencies Grant.



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 3 above for GHA) that is key to meeting funding conditions at WFL1.

There are also a number of 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. The following criteria need to be taken into account when assessing the impact of any risks or business decisions on the financial projections:

<u>Cash Flow Strength</u>

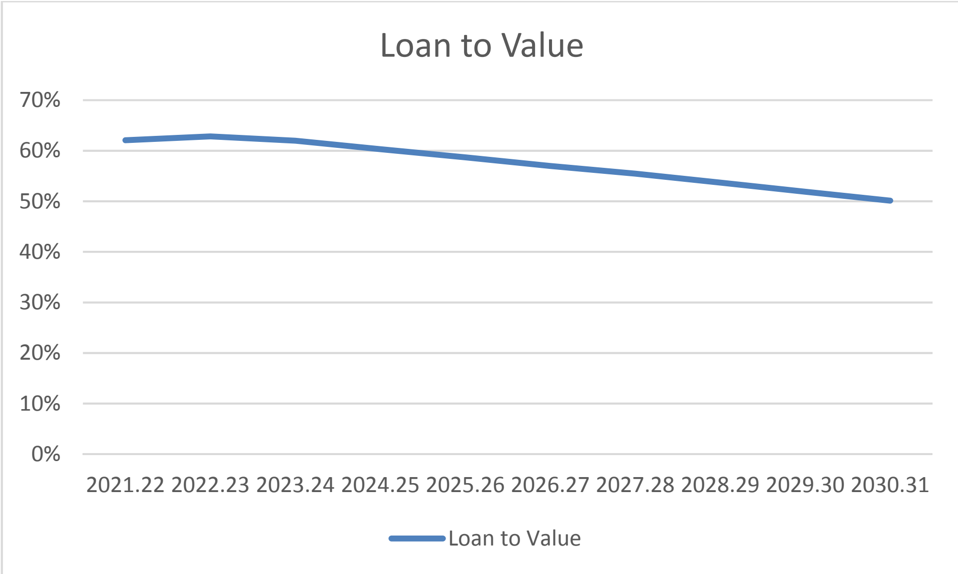
Cash flows need to be able to demonstrate that there is sufficient cash available to service intra-group debt each year. The measure of Revenue Surplus removes items that are non-cash and/or unrelated to operations, such as grant income and property valuation movements, and this after deducting capital investment costs is used to assess the funds available to meet interest payments and pay for all costs related to existing stock.

Cash Flow Strength	**Forecast**				
	Year 1 2021/22	**Year 2 2022/23**	**Year 3 2023/24**	**Year 4 2024/25**	**Year 5 2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Revenue Surplus	89,784	96,948	104,715	109,972	112,454
Less Capital Investment (Existing Properties)	(47,088)	(44,123)	(46,054)	(45,099)	(44,128)
Revenue Surplus less Capital Investment	**42,696**	**52,825**	**58,660**	**64,873**	**68,326**
Net Finance Costs	(46,831)	(49,423)	(51,753)	(52,406)	(52,652)
Revenue Surplus less Capital Investment and Finance Costs	**(4,135)**	**3,403**	**6,907**	**12,467**	**15,674**
Interest Cover	0.91x	1.07x	1.13x	1.24x	1.30x

In the first year of the plan interest costs exceed Revenue Surplus less Capital Investment 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 2 is sufficient to cover borrowing costs and capital investment.

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. It is however important that each subsidiary within the group have sufficient asset cover to support their debt requirement. The measure used to assess this is loan to value, defined as net debt as a percentage of the value of housing and investment properties (excluding housing under construction). The graph below shows the projected loan to value for GHA over the first 10 years. This shows a maximum loan to value of 63% in 2022/23, with this decreasing gradually thereafter. There is therefore sufficient asset cover.



6. Impact of Cube Stock Transfer

The GHA Board agreed at its meeting in October 2020 to the possible transfer of all Cube properties in Glasgow to GHA. This sections sets out the key assumptions made in respect of the transferring stock..

6.1 Key Assumptions

Stock numbers

It has been assumed 2,741 properties for social rent and 27 mid market rent properties will transfer to GHA in 2021/22. This represents all dwellings currently owned or managed by Cube within the City of Glasgow with the social units comprised of

- 2,593 general needs units
- 12 shared ownership
- 136 supported dwellings of which 12 contain multiple rooms.

Of the 2,741 opening properties for social rent, 600 multi storey flats are assumed to be demolished over the first five years with the first block of 150 properties assumed to be handed over to the contractor in 2021/22 and the remaining 450 the following year.

Income

Rent and service charge income assumptions are based on current rents and reflect the proposed 1% increase in April 2021. In line with commitments to tenants as part of the ballot rent increases will be capped at 1% for a further 2 years and are assumed to increase by 2.9% each year thereafter.

In addition to rent and service charges, other income will also be received in relation to the stock transferring from Cube. This includes lease income from Lowther in respect of the 27 mid-market rent properties they manage on Cube's behalf, commercial property income and income in respect of the district heating schemes. Projected other income for the first 5 years is shown in the table below.

Other Income	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Commercial	104	85	86	87	87
MMR leases	137	140	143	146	149
Garages	39	39	39	41	42
District Heating	253	344	350	357	363
Total Income	**534**	**608**	**619**	**630**	**641**

Operating Expenditure

The table below shows the additional operating expenditure assumed over the five year period in respect of the transferring stock.

	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Management and service costs	4,364	4,377	4,512	4,521	4,683
Repairs and maintenance costs	2,511	2,599	2,419	2,322	2,507
Demolition costs	928	503	-	-	-
Wider Role and Strategic Initiatives	325	329	332	292	296
Bad Debts	376	333	330	339	349
Depreciation	4,710	5,003	5,226	5,412	5,611
Operating Expenditure	**13,213**	**13,143**	**12,819**	**12,886**	**13,446**

Management and service costs include assumed direct staff and running costs together with a share charges from Wheatley Solutions for group services.

A total of £12.4m has been included over the five year period for repairs and maintenance of the transferring properties. This includes costs specific to the properties transferring such as lift maintenance in addition to an allocation of general reactive and cyclical maintenance provisions.

Demolition costs for the 4 multi storey blocks are assumed to be £8.9m and include provision for service disconnections, home loss and disturbance payments to tenants in addition to the cost of the physical demolition. It has been assumed that the majority of these costs can be capitalised as we have plans to redevelop the site. The amounts shown in operating costs therefore reflect the revenue component of the costs only.

Wider Role and strategic initiatives include £156k in respect of the tenancy support service, donations to the Foundation of £114k per annum and a provision of £44k in each of the first 3 years for the helping hand fund.

<u>Investment in Existing Properties</u>

In line with ballot promises £25m of investment in existing properties will be delivered over the first 5 years of the programme. This is shown in the table below.

Investment in existing properties	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Core Investment Programme	3,733	3,101	2,606	4,985	5,728
Capitalised Voids & Repairs	875	707	728	750	769
Capitalised Employee Costs	197	200	203	207	211
Total Capital Investment	**4,804**	**4,008**	**3,537**	**5,942**	**6,708**

7. Key Financials (Including Cube Stock)

The financial statements include GHA's share of the Cube stock from 1 April 2021.

7.1 Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Net rental income	198,378	201,092	207,101	212,587	219,172
Other Income	8,465	9,927	10,929	11,662	12,592
Grant Income	28,859	8,418	16,209	10,906	3,990
Total Income	**235,702**	**219,437**	**234,239**	**235,155**	**235,753**
Management and service costs	(63,355)	(62,174)	(61,979)	(62,569)	(63,811)
Repairs and maintenance costs	(36,344)	(37,556)	(38,817)	(39,535)	(40,863)
Demolition and ER/VR costs	(4,187)	(2,607)	-	-	(2,728)
Wider Role and Strategic Initiatives	(4,268)	(4,140)	(4,214)	(3,337)	(2,961)
Bad Debts	(4,074)	(4,117)	(4,229)	(4,340)	(4,468)
Depreciation	(69,330)	(71,787)	(72,893)	(75,856)	(79,169)
Operating Expenditure	**(181,559)**	**(182,381)**	**(182,131)**	**(185,637)**	**(194,001)**
Revaluation of investment properties	(20,036)	(6,489)	(19,920)	(8,216)	1,779
Operating Surplus	**34,106**	**30,567**	**32,187**	**41,302**	**43,531**
Operating Margin	**14%**	**14%**	**14%**	**18%**	**18%**
Net Finance Costs	(50,286)	(53,217)	(55,994)	(56,961)	(57,501)
Surplus/(Deficit)	**(16,180)**	**(22,650)**	**(23,807)**	**(15,658)**	**(13,969)**
Revaluation of housing properties	24,550	33,822	41,709	41,628	47,506
Total comprehensive income	**8,370**	**11,172**	**17,902**	**25,970**	**33,537**

As the table above shows, the transfers of properties results in an increase in Operating Surplus in the first year with a reduction in subsequent years as a result of the costs of demolishing 600 properties. Despite this, Operating Margin increases from 14% to 18% over the period as a result of efficiencies. Excluding grant income and the impact of property valuations, as shown in the table below, underlying operating margin increases from 12% in 2021/22 to 16% in 2025/26.

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Total Income	206,843	211,019	218,030	224,250	231,763
Operating Expenditure	(181,559)	(182,381)	(182,131)	(185,637)	(194,001)
Operating Surplus	**25,283**	**28,638**	**35,899**	**38,613**	**37,762**
Operating Margin	12%	14%	16%	17%	16%

Funding costs are projected to be higher as £67.5m of loans are assumed to transfer in line with the stock transferring. Overall there is therefore a reduction in Total Comprehensive Income compared with the projections excluding the Cube stock. We do however continue to realise an overall surplus each year with this increasing from £8.4m in 2021/22 to £33.5m in 2025/26

7.2 Statement of Financial Position

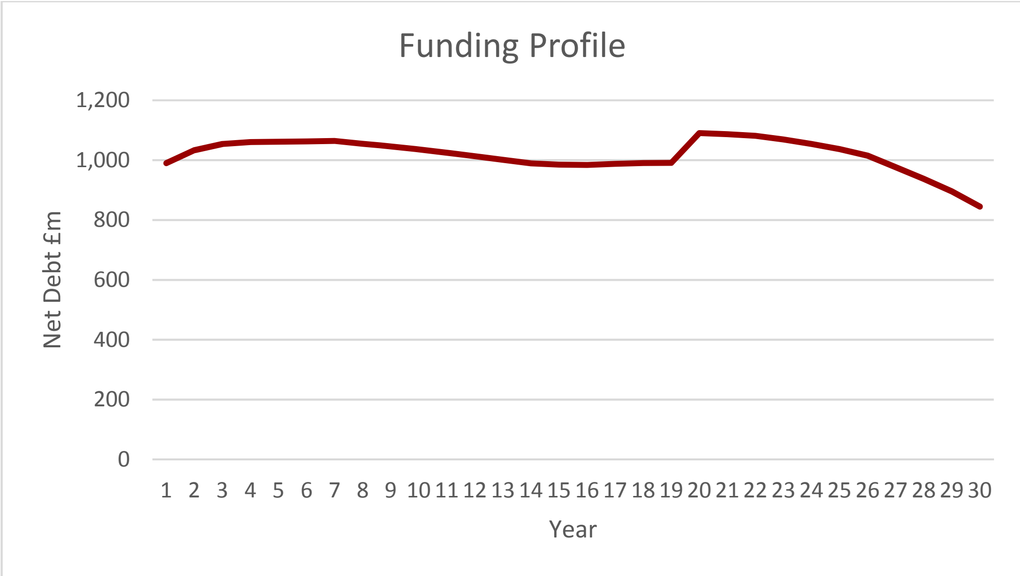
STATEMENT OF FINANCIAL POSITION	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Housing assets	1,509,799	1,554,728	1,571,847	1,591,637	1,637,970
Other Fixed Assets	66,385	69,023	70,866	70,991	68,888
Investment Properties	66,308	69,225	76,259	83,857	85,834
Lowther Investment	8,387	8,387	8,387	8,387	8,387
Total Fixed Assets	**1,650,879**	**1,701,362**	**1,727,359**	**1,754,871**	**1,801,079**
Pension Asset	13,585	13,585	13,585	13,585	13,585
Current Assets	60,169	64,904	70,554	74,313	74,298
Current Liabilities	(69,657)	(67,727)	(57,486)	(52,764)	(61,066)
Net Current (Liabilities)/Assets	**(9,488)**	**(2,823)**	**13,067**	**21,549**	**13,232**
Long term liabilities	(1,024,742)	(1,070,717)	(1,094,702)	(1,104,727)	(1,109,081)
Other Provisions	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Net Assets	**629,140**	**640,312**	**658,214**	**684,184**	**717,721**
Total Reserves	**629,140**	**640,312**	**658,214**	**684,184**	**717,721**

It is estimated that the transfer of the Cube stock to GHA will increase Net Assets at the point of transfer by £5.2m, with the increase in Housing and Investment property values of £72m offset by an increase in loans. Over the five -year period, net assets are projected to increase by £97m.

7.3 Funding and Key Financial Parameters

Funding Profile

The graph below shows the revised funding profile for GHA including the transferring properties. This shows a maximum debt requirement of £1,071.2m in 2027/28. This increase is primarily due to loans of £67.5m assumed to transfer with the housing properties.



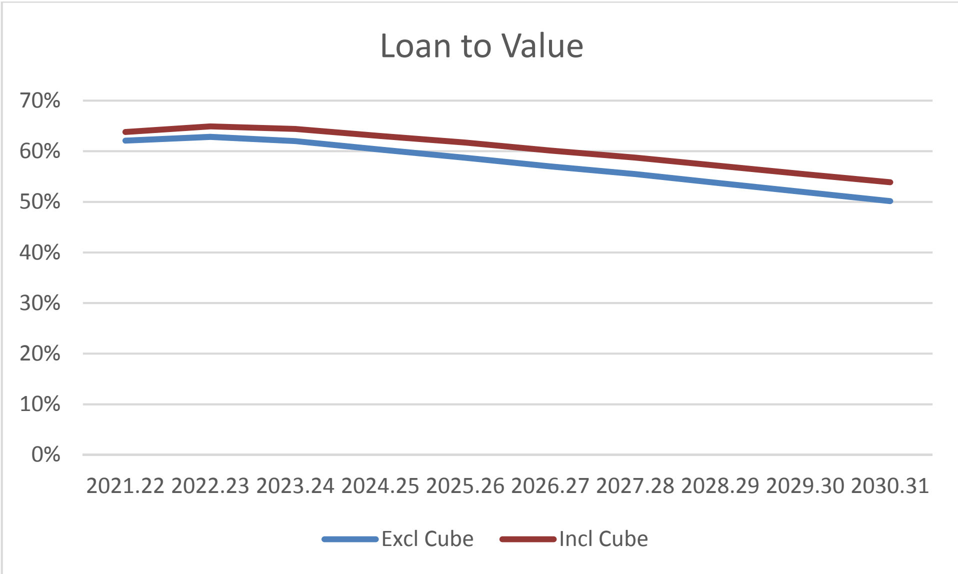
Cashflow Strength

The additional costs associated with the demolition of the Wyndford properties results in a reduction in interest cover as shown in the table below. GHA will however, generate sufficient income to cover investment in existing assets and funding costs from 2023/24 on.

Cash Flow Strength	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
EBITDA	**94,614**	**100,425**	**108,791**	**114,469**	**116,931**
Less Capital Investment (Existing Properties)	(51,808)	(47,795)	(48,704)	(49,800)	(49,807)
EBITDA MRI	**42,806**	**52,630**	**60,087**	**64,669**	**67,124**
Net Finance Costs	(50,286)	(53,217)	(55,994)	(56,961)	(57,501)
EBITDA MRI less Finance Costs	**(7,480)**	**(587)**	**4,093**	**7,708**	**9,623**
Interest Cover	0.85x	0.99x	1.07x	1.14x	1.17x

Asset cover

The graph below shows the loan to value, defined as net debt as a percentage of the value of housing and investment properties. This shows an increase in maximum loan to value from 63% to 65%. This demonstrates there is sufficient asset value to support debt.



8. 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.

No.	Risk Description	Interest Cover			Debt		Mitigation
		Yr1	Yr2	Yr3	Peak debt	Max Loan to Value	
2021/22 Financial Projections		0.85x	0.99x	1.07x	**£1,064.2m**	**65%**	
Risks							
1	Cost inflation & rent increases reduce to 1.0% for in years 2 & 3. No growth in asset valuations.	0.85x	0.98x	1.04x	£1,072.9m	70%	Seek operational efficiencies and review service and repairs levels to offset the impact of the reduced rental income.
2	Rent increase reduced to 2.5% for plan duration	0.85x	0.99x	1.06x	£1,077.4m	65%	Rent setting policy review, operational efficiencies and review service and repair levels.
3	New build programme delayed by 6-12 months on 2 major mid market rent developments	0.85x	0.99x	1.07x	£1,064.4m	65%	Performance monitoring and management on a scheme by scheme basis. In addition, the rent setting policy, operational efficiencies and service and repair levels could all be reviewed to mitigate any financial impact of the delays.
4	Staff savings are not achieved	0.91x	1.00x	1.03x	£1,075.6m	65%	Review of procurement, contract negotiation and operational efficiencies as well as service and repairs levels to offset the impact of the additional staff costs.
5	Bad debt increases by 1%	0.81x	0.95x	1.03x	£1,082.6m	65%	Review of rent setting policy, operational efficiencies and service and repair levels to mitigate the financial impact of the additional bad debt costs.

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WLHP Financial Projections
2021/22

Wheatley Group

Classified as Internal

1. Headlines

The emergence of the Covid-19 pandemic has a significant impact on the day to day operations of the business with the varying levels of restrictions imposed by UK and Scottish Government throughout 2020/21 required us to change and adapt the way we deliver services to our customers. The financial position of West Lothian Housing Partnership has remained strong to date. The financial projections for 2021/22 assume the return of our usual service model with the relaxation of the rules, while remaining well placed to be able to adapt to restrictions being in place for longer. Provision has been retained in the projections for a higher number of tenants moving onto Universal Credit as an expected tightening of the job market impacts customers' ability to keep their rent accounts up to date and a higher allowance has been set aside to cover PPE costs for staff in year 1.

West Lothian Housing Partnership is expected to complete 8 new social rent properties in 2020/21. Further investment of £300k in our existing homes is also expected to be achieved.

The 2021/22 updated financial projections include:

- Provision to complete 613 new social and mid-market rent homes over the five years of the plan, with a further 314 units to be delivered in the period up to March 2028; and
- A further £3.2m 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 2025/26 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 2025/26 all new build units are completed creating an increase in rental income and realising operating cost per unit efficiencies. Overall this results in 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 2021/22 Business Plan are highlighted below. All figures include VAT, where applicable but not inflation (unless stated otherwise).

2.1. Stock numbers

The 2021/22 WLHP Business Plan assumes an opening rented stock number of 749 social rent units. This is based on the 519 units owned by WLHP as at 1st April 2020, the completion of 8 new build units at Dixon Terrace and the 222 units transferred from Barony HA in May 2020.

The projections assume 521 new homes for social rent will be delivered in the next five years. Of the new social rented homes, we anticipate 136 being handed over in 2021/22, 94 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

	2021/22	2022/23	2023/24	2024/25	2025/26
Opening Stock	**749**	**885**	**992**	**1,022**	**1,208**
New Build	136	107	30	186	62
Closing Stock	**885**	**992**	**1,022**	**1,208**	**1,270**

Stock Profile – Other Affordable Housing

In addition to social housing, the updated projections assume 92 units for mid-market rent will be delivered. Of these properties we anticipate 26 being handed over in 2021/22, at Almondvale. Table 2 below shows the movement in mid-market rent units over the period of the projections.

Table 2 – Mid-Market Rent Stock Numbers

	2021/22	2022/23	2023/24	2024/25	2025/26
Opening Stock	**-**	**26**	**32**	**66**	**92**
Acquired/ Developed	26	6	34	26	-
Closing Stock	**26**	**32**	**66**	**92**	**92**

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 1.7% rent increase in April 2021. For the properties transferred from Barony HA the assumed rent increase is 2% for the first 2 years of the projections in line with the partnership committments made to Barony tenants.

Table 3 – Rent and service charge increase assumptions

	2021/22	2022/23	2023/24	2024/25	2025/26
Increase (existing WLHP tenants)	1.7%	2.4%	2.9%	2.9%	2.9%
Increase (Barony tenants)	2.0%	2.0%	2.9%	2.9%	2.9%

As the MMR properties are completed, income from the lease arrangement with Lowther will commence. The value of these leases have been determined so that WLHP receive a sufficient return to cover the funding costs associated with them together with the cost of any capital replacements.

2.3. Inflation Assumptions

Covid-19 continues to have a significant economic impact at a global and domestic level. Inflation levels were low prior to the emergence of the virus with lockdown restrictions and the knock on effect on businesses have causing CPI to fall to 0.6% in December 2020, a reduction from a rate of1.3% in December 2019. Despite short term demand restrictions, market views on underlying economic prospects remain strong and, on relaxation of the restrictions, prices are expected to be driven up in the coming year. The longer term outlook projects cost inflation moving back to higher levels as more normal trading conditions return through 2021/22. We have held our expectation for cost inflation to move upwards and our forecasts reflect a rate of 1.5% in 2021/22 rising up to 3% by 2022/23, with a long term outlook of 2.5% from year 5 onwards, 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

		2021/22	2022/23	2023/24	2024/25	2025/26
Cost Inflation		1.5%	3.0%	3.0%	3.0%	2.5%

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)	566	606	570	525	559

The plan assumes voids losses for existing WLHP tenants of 0.5% of rental income. For tenants who transferred from Barony HA the assumption is for 3% voids due to the requirements in supported properties. Current year to date performance reports 0.4% rent loss in void properties and therefore this is a prudent assumption compared to historical rates.

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 as well as any impact the pandemic may have on tenants' ability to keep their accounts up to date. 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

Employee and running costs within the financial projections reflect the changes in structure, and cost efficiency savings, made during the past few years. The projections assume the payment SHAPS pension deficit contributions due under the current recovery 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 £118k in 2021/22. This is proposed to decrease in future years, linked to staff and running cost efficiency savings being achieved.

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

Table 6 – Management Cost Assumptions

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Employee Costs	533	514	514	514	514
Running Costs	345	392	410	447	483
Recharges from Group	118	119	118	115	115
Total	**996**	**1,025**	**1,042**	**1,076**	**1,112**

2.6. Asset Management and Growth

a) Revenue Repairs & Maintenance

WLHP's repairs service is delivered by Dunedin Canmore's property services team. 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	2021/22	2022/23	2023/24	2024/25	2025/26
Routine Maintenance	494	574	593	634	671
Planned Maintenance	154	144	156	184	209
Total	**647**	**718**	**750**	**818**	**881**
Average No. of Units	817	939	1007	1115	1239
Average Repair £ cost per unit	**792**	**765**	**745**	**733**	**711**

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 also reflects the commitments made to Barony tenants to deliver additional investment in their properties.

Table 8 – Capital Investment Programme (excluding inflation)

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Core Programme	770	526	388	522	563
Void Repairs	38	38	38	38	38
Medical Adaptations	20	20	20	20	20
Total	**828**	**584**	**446**	**579**	**621**

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) IT Capital Investment

In total, across the Group the financial projections provide for a 5 year IT capital investment programme of £39.5m, an increase of £20.7m from the 2020/21 financial projections. This additional investment is in recognition of the key role technology has in supporting the delivery of the key strategic aims in the Group's 2021-26 strategy. Alongside the digital aspirations for Group services to customers and staff, the funding also provides for a safe, secure and reliable technology service. WLHP makes a capital contribution towards the overall Group IT capital costs. The table below details WLHP's contribution over the next 5 years.

Table 9 – IT Capital Contribution (including inflation)

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
IT Capital Contribution	66	84	69	72	54

Investment in technology is planned across a number of areas including:

- Improved homeworking services to staff, network and voice investment across core services, cloud-hosted voice platform for staff and call centre services, improved Group connectivity aligned to mobile/agile staff service delivery, increased use of mobile devices and core desktop delivery improvements and improved end-user security.
- Moving to cloud-hosted services and closures to our data centre hosting arrangements and information security improvements. Application service and platform upgrades improving overall security and incorporating the latest features and functions
- Housing service improvements across virtual patches, improved online services and customer engagement and automating tasks and activities.
- Community digital engagement platforms and applications, aligning customer and community outcomes and providing information and collaboration services, implementing a predictive data science programme and extending and enhancing our online services
- Improved customer applications and services across mobile devices and core services (such as Home Comforts, Universal Credit and money advice, tenancy support services and digital access to housing staff for information and advice)
- Improving our digital and online repairs services though automated communications and improved access to services and trades and real-time customer feedback channels

d) New Build Programme

The new build programme is set out at Section 2.1 and reports 521 social and 92 mid-market rent properties to be delivered. Table 10 summarises the investment in new build homes over the five years.

Table 10 – New build Funding Profile (including inflation)

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Development Costs	15,861	14,462	20,886	11,908	4,412
Grant Income (cash received)	7,274	6,835	9,866	4,829	0
Net Cost	**8,587**	**7,627**	**11,020**	**7,079**	**4,412**

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

2.7. <u>Initiatives and Other Provisions</u>

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 per year for the first 3 years 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 £9k for the Tenancy Sustainment service that Loretto Care delivers on our behalf.
- Donations to the Wheatley Foundation totalling over £192k 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 11 below.

Table 11 – Projected Operating Cost per Unit (real terms)

	2021/22	2022/23	2023/24	2024/25	2025/26
Operating Costs (£'000)	1,694	1,798	1,848	1,952	2,054
Average No. of SR Units in year	817	939	1,007	1,115	1,239
Operating Cost per Unit	**2,074**	**1,916**	**1,835**	**1,751**	**1,658**

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 4.95% in 2021/22, 5% in 2021/22 and 5.1% 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 12 – Interest Rate Assumptions

	2021/22	2022/23	2023/24	2024/25	2025/26
Interest Payable (Group Funding)	4.95%	5.00%	5.10%	5.10%	5.10%
Interest Receivable	0.25%	0.50%	0.75%	1.50%	2.00%

3. Financial Projections

a) Income and Expenditure Account

Table 13 – Income and Expenditure Projections

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Net Rental Income	3,869	4,680	5,098	5,830	6,545
Other Income	32	165	342	442	525
Grant Income	12,467	6,418	4,173	15,684	4,948
Investment Property Valuation Movement	2,294	(303)	(1,623)	(1,225	)123
Total Income	**18,662**	**10,960**	**7,990**	**20,731**	**12,140**
Management Costs	1,047	1,103	1,147	1,215	1,286
Repair and Maintenance Costs	647	739	795	894	986
Depreciation	2,065	2,653	2,656	2,651	2,668
Operating Expenditure	**3,759**	**4,495**	**4,599**	**4,760**	**4,940**
Operating Surplus	**14,903**	**6,464**	**3,392**	**15,971**	**7,200**
Operating Margin (%)	**80%**	**59%**	**42%**	**77%**	**59%**
Finance Costs	(991)	(1,599)	(1,885)	(2,471)	(2,857)
Housing Property Valuation Movement	(4,409)	(3,935)	(239)	(15,397)	(3,560)
Statutory Surplus/(Deficit)	**9,503**	**930**	**1,267**	**(1,897)**	**783**

Rental Income and Other Income

Investment in the new build programme and assumed rental increases will generate 69% 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.

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 20% 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.

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/(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 prudent scenario.

b) Statement of Financial Position

Table 14 – Statement of Financial Position Projections

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Housing Assets & Investment Properties	59,288	67,975	85,412	79,214	78,555
Other Fixed Assets	308	237	161	156	175
Total Fixed Assets	**59,596**	**68,212**	**85,573**	**79,370**	**78,729**
Current Assets	549	560	546	531	543
Current Liabilities	(11,482)	(11,899)	(17,592)	(6,737)	(1,790)
Net Current (Liabilities)/Assets	**(10,933)**	**(11,340)**	**(17,046)**	**(6,206)**	**(1,247)**
Long-Term Liabilities	(32,434)	(39,713)	(50,100)	(56,633)	(60,169)
Net Assets	**16,230**	**17,160**	**18,427**	**16,531**	**17,314**
Retained Earnings	16,230	17,160	18,427	16,531	17,314
Total Reserves	**16,230**	**17,160**	**18,427**	**16,531**	**17,314**

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 32.5%, due primarily to the construction of new build properties.

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 predominantly relate to the loans due from DCH to Wheatley Funding Limited 1 (“WFL1”). The balance due to WFL1 peaks in 2025/26.

Retained Earnings
Retained earnings are projected to fluctuate largely due to the statutory deficits resulting from assumed downward valuation movements in properties. In years 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 15 – Cashflow Projections

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Net Rental Income	3,792	4,779	5,394	6,224	6,990
Operating Expenditure	(1,686)	(1,787)	(1,883)	(2,045)	(2,204)
Net Cash from Operating Activities	**2,107**	**2,992**	**3,511**	**4,179**	**4,786**
Core & Other Capital Expenditure	(1,008)	(800)	(658)	(874)	(911)
New Build Expenditure	(15,861)	(14,462)	(20,886)	(11,908)	(4,412)
Grant Income	7,274	6,835	9,866	4,829	0
Net Cash used in Investing Activities	**(9,595)**	**(8,427)**	**(11,678)**	**(7,953)**	**(5,323)**
Finance Costs	**(1,361)**	**(1,842)**	**(2,219)**	**(2,758)**	**(2,998)**
Net Movement in Cash	**(8,849)**	**(7,278)**	**(10,387)**	**(6,532)**	**(3,535)**

Net Cash from Operating Activities

The plan assumes net cash from operating activities increases from £2,107k in 2021/22 to £4,786k in 2025/26, an increase of 127% over the five year period. This increase is due to the completion and handover of 613 units within this period 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 2025/26. 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.

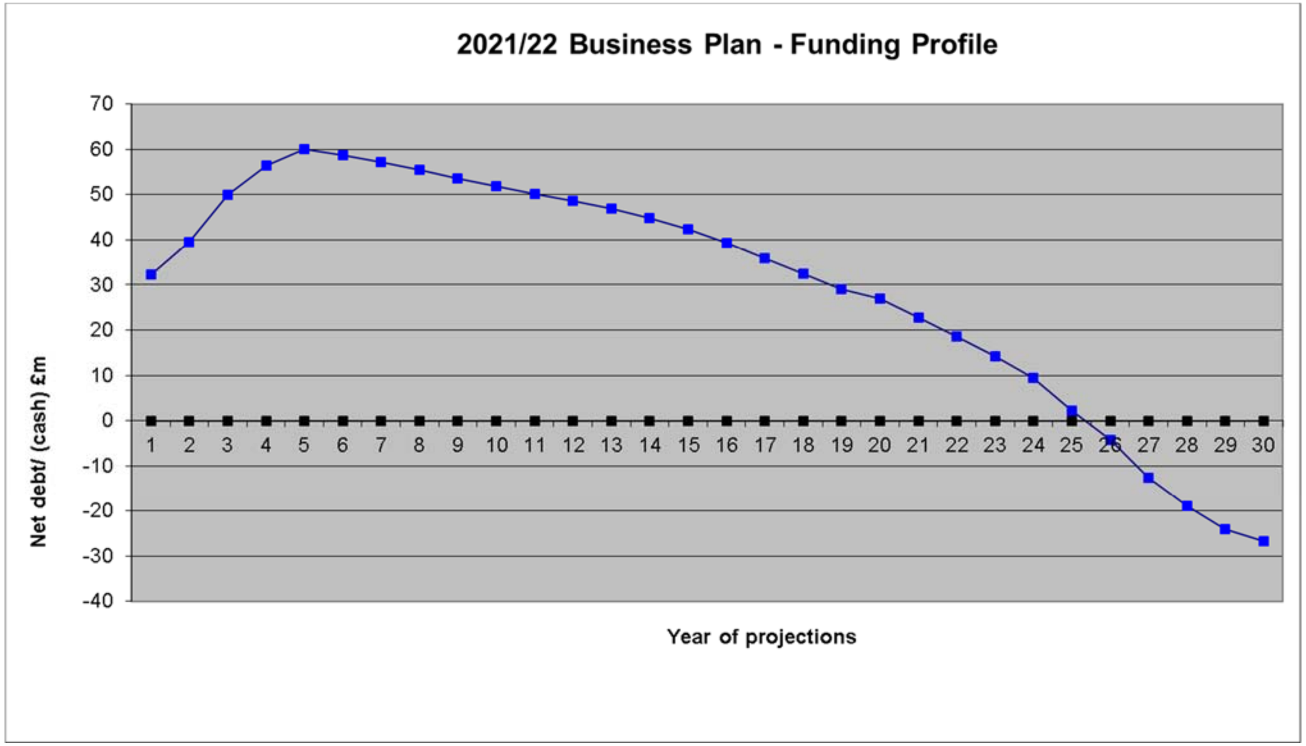
Net Movement in Cash

Across the five year of the plan we anticipate a £36.6m 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 that is key to meeting funding conditions at WFL1.

The resulting debt profile for WLHP is as follows:



Debt indicator	Value
Peak net debt	£60.0m
Peak net debt year	5 (2025/26)
Debt repayment year	26 (2046/47)
Cash at Year 30	£26.7m

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:

	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Income (excluding grant income and property valuation movement)	3,901	4,845	5,440	6,272	7,070
Adjusted Operating Surplus	142	350	842	1,512	2,130
Adjusted Operating Margin	**3.64%**	**7.22%**	**15.47%**	**24.11%**	**30.13%**

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. Revenue Surplus less Capital Investment removes items that are non-cash and/or unrelated to underlying operations, such as grant income and property valuation movements after accounting for capital investment in our homes. This measure is used 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.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Revenue Surplus less Capital Investment	1,379	2,401	3,025	3,530	4,102
Net Interest Payable	991	1,599	1,885	2,471	2,857
Revenue Surplus less Capital Investment after Finance Costs	**389**	**803**	**1,140**	**1,059**	**1,244**
Interest Cover	**1.39**	**1.50**	**1.60**	**1.43**	**1.44**

The ratio is above 1 in all years but decreases in years 4 and 5 as the debt and therefore interest payments increase. After the debt peaks in year 5 of the plan interest payments will decrease and interest cover will increase significantly as additional rental income is generated and the debt levels decrease. Increases in rental income and continuing management of the cost base during the five year period are of extreme importance.

The long term financial projections currently assume that debt can be repaid in Year 26 of the plan with £26.7m 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 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.

Nr	Risk description	Revenue surplus less capital investment - 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		**1.39**	**1.5**	**1.6**	**1.43**	**1.44**	**60.0**	**26**	**26.7**	
1	Cost inflation decreases to 2.5% from year 2	1.39	1.51	1.61	1.44	1.45	59.6	25	30.4	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 improves by 1 year, and cash at year 30 increases by £3.7m.

2	Rent increase reduced from 2.9% to 2.5% for duration of plan	1.39	1.50	1.59	1.41	1.41	5	27	13.7	Reduction in rental income results in worsening of interest cover, increased debt and reduced closing cash. Performance management, efficiency savings and review of services required to reduce costs.
3	Bad debt increases by 1%	1.35	1.47	1.57	1.40	1.41	5	26	21.5	Review of rent setting policy, operational efficiencies and service and repair levels to mitigate the financial impact of the additional bad debt costs.
4	Management costs are £50k higher each year from year 2	1.39	1.47	1.57	1.40	1.41	5	26	22.5	Performance monitoring to identify overspends and areas where efficiencies can be realised.
5	Repairs & maintenance costs are 5% higher from year 1	1.38	1.49	1.59	1.42	1.43	5	26	25.5	Performance monitoring and service review to identify areas where savings can be achieved.

6	Additional investment spend of £1m required over years 2-3 for new quality standard or regulations	1.39	1.17	1.29	1.40	1.41	5	26	22.7	Procurement savings and efficiencies to be sought. Review of investment programme to identify non-essential spend or works that could be deferred to a later date to accommodate additional costs within existing provisions.
7	New build programme accelerated (127 units brought forward by two years)	1.40	1.52	1.54	1.37	1.42	4	26	27.7	Earlier delivery of units results in improved earnings which improve interest cover. There is a marginal benefit to plan over the longer term. Consideration would need to be given to impact of changes in programme on overall borrower group covenant position.

8	New build programme delayed, (c. 125 units delayed by one year)	1.39	1.50	1.60	1.42	1.48	6	26	25.8	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.

Loretto Housing

Business Plan: Financial Projections – 2021/22

1. Headlines

The emergence of the Covid-19 pandemic has a significant impact on the day to day operations of the business with the varying levels of restrictions imposed by UK and Scottish Government throughout 2020/21 requiring us to change and adapt the way we deliver services to our customers. The financial position of Loretto has remained strong to date. The financial projections for 2021/22 assume the return of our usual service model with the relaxation of the rules, while remaining well placed to be able to adapt to restrictions being in place for longer. Provision has been retained in the projections for a higher number of tenants moving onto Universal Credit as an expected tightening of the job market impacts customers' ability to keep their rent accounts up to date and a higher allowance has been set aside to cover PPE costs most notably for environmental and frontline staff in year 1.

While Loretto did not complete any social rent new build properties during 2020/21, however, several projects are in development and will result in completions in the coming years. They are projected to invest just under £1m in existing homes this year.

The 2021/22 updated financial projections include:

- Provision to build 184 new social rented homes over the next five years
- A further £9.0m of investment in existing housing stock
- Contribution of £0.8m to the Group's IT investment, helping to support the strategic aims in the 2021-26 strategy
- £0.4m in donations to the Wheatley Foundation

These figures are for Loretto stock only and Section 2 provides further information on these provisions.

Section 3 of the report outlines the impact of the Cube transfer of engagements. On completion of the transfer, more than 1,000 properties (excluding individual rooms in supported properties) will be added to Loretto's stock, with provision made for £7m to be invested in these properties over the five years. The transfer also brings a significant new build programme to Loretto, more than doubling new build completions over the five year period presented.

During the development period, Loretto's 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.

Loretto's peak net debt after the transfer is in 2024/25 (year 4) 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 (Loretto only)

The key financial assumptions in the 2021/22 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 2020. No new build developments are due to complete in 2020/21 so no change is forecast at 31 March 2021. The 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	1,492
Shared Ownership	4
Total (Social)	1,496
Mid-Market Rent	17
Total	1,513

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.

b) Stock Profile

Over the next 5 years of the plan it is anticipated that 184 new homes for social rent will be delivered as a result of our development programme. At 31 March 2021, no additional units will have completed yet, however, as outlined in section c, units will complete in the coming years. Table 2 outlines Loretto's developments in the previous five years 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) Stock profile – new build completions

The 2021/22 projections assume a further 184 social rent units can be delivered over the period of the new five year strategy.

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. The projections focus on Greater Glasgow and surrounding areas, with the exclusion of Glasgow City. One exception to this is the development in Cardonald, Hallrule Drive, which is already on site for Loretto. The majority of the new build allocation over the next five years is planned to be in Falkirk and Renfrewshire, increasing housing supply, and our presence in this area.

Table 3 below shows the planned profile of social housing stock (excluding shared ownership and managed 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)

	2021/22	2022/23	2023/24	2024/25	2025/26
Opening Stock	**1,442**	**1,442**	**1,503**	**1,596**	**1,626**
New Build	0	61	93	30	0
Closing Stock	**1,442**	**1,503**	**1,596**	**1,626**	**1,626**

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 1.7% rent increase in April 2021. In addition to rental income Loretto also receives income from service charges. Based on current charges the income received is forecast to be £981k per annum (net of amounts transferred to Wheatley 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	2021/22	2022/23	2023/24	2024/25	2025/26
Increase %	1.7	2.4	2.9	2.9	2.9

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 £75k per annum.
Wheatley Care Management Fee	£203k management fee income for the provision of corporate services to Wheatley Care. The fee is assumed to increase annually in line with inflation.

2.3 Cost Inflation Assumptions

Covid-19 continues to have a significant economic impact at a global and domestic level. Inflation levels were low prior to the emergence of the virus with lockdown restrictions and the knock on effect on businesses have causing CPI to fall to 0.6% in December 2020, a reduction from a rate of1.3% in December 2019. Despite short term demand restrictions, market views on underlying economic prospects remain strong and, on relaxation of the restrictions, prices are expected to be driven up in the coming year. The longer term outlook projects cost inflation moving back to higher levels as more normal trading conditions return through 2021/22. We have held our expectation for cost inflation to move upwards and our forecasts reflect a rate of 1.5% in 2021/22 rising up to 3% by 2022/23, with a long term outlook of 2.5% from year 5 onwards, 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 5 – Inflation assumptions

General Inflation Assumptions	2021/22	2022/23	2023/24	2024/25	2025/26
General cost inflation	1.5%	3.0%	3.0%	3.0%	2.5%
Wage inflation	1.5%	1.5%	1.5%	2.0%	2.0%

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 – Void, bad debt and arrears assumptions

Performance Assumptions	2021/22	2022/23	2023/24	2024/25	2025/26
Routine voids (%) – General Needs	1.3	1.3	1.3	1.3	1.3
Routine voids (%) – Supported	7.0	7.0	7.0	7.0	7.0
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)	367	375	400	405	406

The plan assumes voids remain at a constant % of rental income. Current year to date performance overall is 3.3%, versus the overall combined general needs and supported void % of 3.4% 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 642 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 the direct staff structure. Additionally, Loretto pays an appropriate share of the salaries of the Repairs & Investment, Regeneration, Environmental Service and Wheatley 360 staff teams. Improved working practices will ensure the growing asset base can be managed within the existing staff complement, as reflected in the stable staff cost in the table below.

Running costs, which include day to day expenditure and an appropriate share of the Environmental Service and Wheatley 360 running costs, but exclude Initiatives, are assumed to increase by 4.5% over five years. The additional allowance results from the 184 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 and the Transactional Hub, to reduce by 3.5% over the next five years. This reflects further efficiency savings resulting from continued investment in back office services, particularly the technology. Table 7 sets out the overall management costs are assumed in the plan.

Table 7 – management cost assumptions (excluding inflation)

Management Costs	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Employee costs	849	849	849	849	849
Pension deficit contribution	463	0	0	0	0
Running costs	606	605	606	624	633
Recharges from Group	430	432	427	415	415
Total	**2,348**	**1,886**	**1,882**	**1,888**	**1,897**

Keeping costs within these limits is required in order to be able to re-invest in our business and grow our asset base.

2.6 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 5.4% decrease to the average repairs and maintenance cost per unit over the period of the five year projections. Table 8 summarises the revenue repairs and maintenance assumptions.

Table 8 – Planned and Routine Maintenance costs (excluding inflation)

Repairs	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Routine Repairs £000	604	617	647	667	678
Planned Maintenance £000	611	609	608	606	613
Total	**1,215**	**1,226**	**1,255**	**1,273**	**1,291**
Average Cost per Unit £	£814	£805	£785	£766	£770

A significant proportion of the planned maintenance budget is to enable us to comply with legislative requirements as a landlord (e.g. gas servicing, emergency lighting, window safety catches, TMVs, HIU inspections).

b) Capital Investment

By the end of the financial year 2020/21 it is projected that £0.9m will have been invested in existing stock. Over the next five years this investment will continue with a further £9.0m of 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 9 summarises the capital investment programme for the next five years. Within the core programme ,£594k has been allocated to local priorities with spending decisions made in consultation with and led by our customers. This equates to nearly 10% of the total core programme budget.

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 was brought in-house in 2020/21 and is carried out by a newly created void team within the Wheatley 360 wrap-around service structure. Bringing the service in-house gives us greater control over the void turnaround process.

Table 9 – Capital investment programme (excluding inflation)

Capital Investment	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Core Programme (including capitalised repairs)	1,272	1,814	1,061	1,026	1,202	6,375
Void Repairs	198	197	197	197	197	986
Other	352	240	236	234	233	1,295
Medical Adaptations	73	73	73	73	73	365
Total	**1,895**	**2,324**	**1,567**	**1,530**	**1,705**	**9,021**

c) New Build Programme
The new build programme is set out in Section 1.1 with 184 new social housing units due to be delivered over the next five years. Table 10 outlines the investment in new build homes over the next five years.

Table 10 – New build funding profile (including inflation)

New Build Programme	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Development Costs	8,566	8,225	5,920	2,015	0	24,726
Grant Income (cash received)	4,146	2,423	2,633	0	0	9,202
Net Cost	**4,420**	**5,802**	**3,287**	**2,015**	**0**	**15,526**
Completions	0	61	93	30	0	184

2.7 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 £78k a year over the next 5 years. 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 contribution to TSS is £40k a year. This service is delivered by Wheatley Care for the Group.

The Helping Hand Fund continues up to 2023/24, providing support to those customers experiencing severe hardship; the contribution to this is £22k annually. This has been extended from 2020/21.

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 contribution to these initiatives over the next five years is summarised in the below table.

Table 11 – Initiatives

Other Group Recharges	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Share of Group Initiatives	149	147	145	121	119

b) IT Capital Investment

In total, across the Group the financial projections provide for a 5 year IT capital investment programme of £39.5m, an increase of £20.7m from the 2020/21 financial projections. This additional investment is in recognition of the key role technology has in supporting the delivery of the key strategic aims in the Group's 2021-26 strategy. Alongside the digital aspirations for Group services to customers and staff, the funding also provides for a safe, secure and reliable technology service. Loretto makes a capital contribution towards the overall Group IT capital costs. The table below details Loretto's contribution over the next 5 years.

Table 12 – IT Capital Contribution (including inflation)

IT Capital Programme	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
IT Capital Contribution	165	202	161	163	120

Key investment in technology is planned across a number of areas including:

- Improved homeworking services to staff, network and voice investment across core services, cloud-hosted voice platform for staff and call centre services, improved Group connectivity aligned to mobile/agile staff service delivery, increased use of mobile devices and core desktop delivery improvements and improved end-user security.
- Moving to cloud-hosted services and closures to our data centre hosting arrangements and information security improvements. Application service and platform upgrades improving overall security and incorporating the latest features and functions
- Housing service improvements across virtual patches, improved online services and customer engagement and automating tasks and activities.

- Community digital engagement platforms and applications, aligning customer and community outcomes and providing information and collaboration services, implementing a predictive data science programme and extending and enhancing our online services
- Improved customer applications and services across mobile devices and core services (such as Home Comforts, Universal Credit and money advice, tenancy support services and digital access to housing staff for information and advice)
- Improving our digital and online repairs services though automated communications and improved access to services and trades and real-time customer feedback channels

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 13 below.

Table 13 – Projected operating cost per unit (excluding inflation)

Operating Costs	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Operating Costs	4,221	3,761	3,803	3,817	3,848
Average No. of Units in year	1,492	1,523	1,600	1,661	1,676
Operating Cost per Unit (£)	£2,829	£2,470	£2,378	£2,298	£2,296

This represents a 18.8% in the operating cost per unit over the five year period. The SHAPS deficit payments end in 2021/22 and this leads to the significant drop in the operating costs from 2021/22 to 2022/23. Additionally, efficiency savings will also arise due to continuing investment in service transformation, including online services for customers.

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 5.05%. 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 14 – Interest rate assumptions

Interest	2021/22	2022/23	2023/24	2024/25	2025/26
Interest Payable (Group Funding)	4.95%	5.00%	5.10%	5.10%	5.10%
Interest Receivable	0.25%	0.50%	0.75%	1.50%	2.00%

3. Impact of Cube transfer

The successful ballot means that Cube will transfer to GHA and Loretto during 2021/22.

3.1 Units

All Cube completed and new build units out-with Glasgow will transfer to Loretto. At the date of transfer, the following completed units are forecast to transfer:

- 933 general needs units
- 15 shared ownership units
- 34 individual self-contained supported units and a further 26 supported dwellings each containing multiple rooms. Additionally, a supported dwelling managed by Cube but not owned, will transfer to Loretto.

Over the five year period to 2026, a further 239 social rent units are forecast to complete, including the Queens Quay development in Clydebank. Table 15 outlines the investment in new build homes over the next five years.

Table 15 – New build funding profile (including inflation)

New Build Programme	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Development Costs	4,598	8,885	12,416	5,294	548	31,741
Grant Income (cash received)	3,572	4,574	6,368	1,246	0	15,760
Net Cost	**1,026**	**4,311**	**6,048**	**4,048**	**548**	**15,981**
Completions	0	78	76	69	16	239

3.2 Provision for Repairs and Maintenance and Capital Investment

Over the next five years there is provision of £3.3m for routine repairs and planned maintenance of the Cube units. Additionally, £7.3m is planned to be invested in these units.

Table 16 – Repairs and Maintenance and Capital investment (excluding inflation)

Repairs and Capital investment (£'000)	2021/22	2022/23	2023/24	2024/25	2025/26
Routine Repairs and Planned Maintenance	**583**	**598**	**649**	**714**	**775**
Core Programme	943	694	1,362	1,298	776
Adaptations	141	141	141	141	141
Void Repairs	230	230	231	232	232
Other	73	73	73	73	73
Total Capital Investment	**1,387**	**1,138**	**1,807**	**1,744**	**1,222**

4. Financial projections (including Cube transfer) – next 5 years

4.1 Statement of Comprehensive Income

Table 17 – Statement of Comprehensive Income

Statement of Comprehensive Income	2021/22	2022/23	2023/24	2024/25	2025/26
Net Rental Income	12,851	13,341	14,535	15,567	16,388
Other Income (including MMR lease income)	278	283	289	295	301
Grant Income	214	14,360	14,207	7,881	1,517
Total Income	**13,343**	**27,984**	**29,031**	**23,743**	**18,206**
Service Costs	296	305	314	323	331
Management Costs	4,465	3,491	3,586	3,655	3,971
Repair and Maintenance Costs	1,798	1,886	2,047	2,214	2,364
Bad Debt	380	388	404	417	431
Depreciation	7,113	7,413	7,967	8,084	8,195
Operating Expenditure	**14,052**	**13,483**	**14,318**	**14,693**	**15,292**
Investment Property Valuation Movement	26	27	28	28	29
Operating (Deficit)/Surplus	**(683)**	**14,528**	**14,741**	**9,078**	**2,943**
Operating Margin (%)	**-5%**	**52%**	**51%**	**38%**	**16%**
Finance Costs	(2,966)	(3,240)	(3,902)	(4,351)	(4,603)
Housing Property Valuation Movement	5,347	(10,214)	(10,583)	(2,844)	5,435
Total Comprehensive Income	**1,698**	**1,074**	**256**	**1,883**	**3,775**

Rental income

Investment in the new build program and assumed rental increases will generate 27.5% 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.

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 21% reduction in operating cost per unit.

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.

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 a prudent scenario.

b) <u>Statement of Financial Position</u>

Table 18 – Statement of Financial Position

Statement of Financial Position	2021/22	2022/23	2023/24	2024/25	2025/26
Housing & Investment Properties	142,073	146,273	150,659	151,510	153,379
Other Fixed Assets	1,218	1,193	1,099	1,073	923
Total Fixed Assets	143,291	147,466	151,758	152,583	154,302
Current Assets	1,947	1,952	1,954	1,958	1,968
Current Liabilities	(16,849)	(12,480)	(11,711)	(5,341)	(4,064)
Net Current Liabilities	(14,902)	(10,528)	(9,757)	(3,383)	(2,096)
Long-Term Liabilities	(74,769)	(82,244)	(87,051)	(92,367)	(91,598)
Net Assets	**53,620**	**54,694**	**54,950**	**56,833**	**60,608**
Retained Earnings	53,620	54,694	54,950	56,833	60,608
Total Reserves	**53,620**	**54,694**	**54,950**	**56,833**	**60,608**

<u>Housing Assets</u>
The plan assumes Housing Property assets to increase £11.3m over five years due to the construction of 423 additional properties and an assumed increase in the value of our existing stock as a result of investment.

<u>Other Assets</u>
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 £59.5m at March 2021 to £89.6m at March 2026, funding new build development. Peak net debt of £90.4m occurs in year 4 (2024/25).

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 by £7.0mover the five year period.

c) Statement of Cash Flow

Table 19- Statement of Cash Flow

Cash Flow	2021/22	2022/23	2023/24	2024/25	2025/26
Net Rental Income	12,829	13,451	14,647	15,675	16,489
Operating Expenditure	(6,718)	(5,681)	(5,947)	(6,192)	(6,666)
Net Cash from Operating Activities	**6,111**	**7,770**	**8,700**	**9,483**	**9,823**
Core & Other Capital Expenditure	(3,657)	(4,018)	(3,969)	(3,980)	(3,607)
New Build Expenditure	(13,425)	(17,374)	(18,605)	(7,583)	(827)
Grant Income	7,717	6,997	9,002	1,246	-
Net Cash used in Investing Activities	**(9,365)**	**(14,396)**	**(13,573)**	**(10,318)**	**(4,434)**
Finance Costs	(3,099)	(3,621)	(4,144)	(4,518)	(4,626)
Net Movement in Cash	**(6,353)**	**(10,247)**	**(9,017)**	**(5,353)**	**763**

Net Cash from Operating Activities
The plan assumes cash from operating activities to increase by 61% in five years. Rent increases and the completion and handover of 423 new build properties, creates additional rental and lease income; the positive movement being further assisted by the operating cost per unit decreasing 21% 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, Loretto will use existing cash resources, followed by drawing down money from Group. The projections assume the new build

programme is completed in 2025/26, while core programme expenditure continues. Peak net debt is reached in 2024/25, which is year 4 of the plan. Beyond peak net debt year, as no further debt is expected to be drawn, debt levels gradually decrease. Annual finance costs are therefore strongly linked to any increase or decrease in debt.

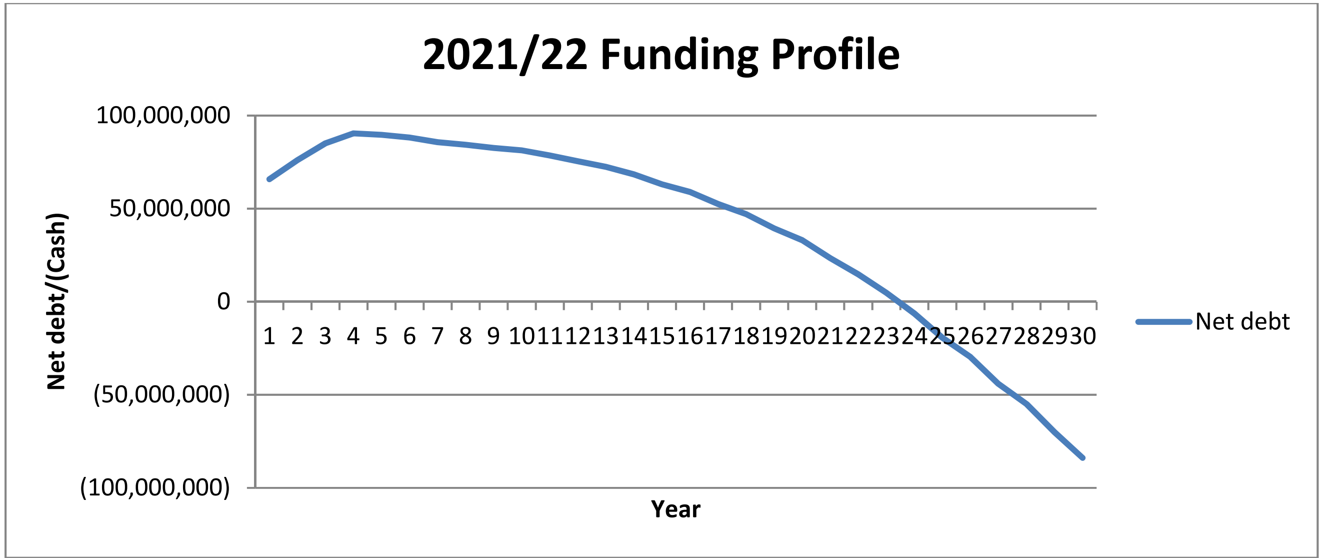
<u>Net Movement in Cash</u>

In the first five years of the plan we anticipate a £30.2m net cash outflow. This is due to significant investment in our existing properties, and the new build programme, in line with our strategic objectives.

5. Funding and debt profile

5.1 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	£90.4m
Peak debt year	4
Debt repayment year	24
Cash at Year 30	£83.9m

6. Key Parameters

6.1 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:

6.2 <u>Operating margin generation</u>

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	2021/22	2022/23	2023/24	2024/25	2025/26
Income (excluding grant income and property valuation movement)	13,129	13,624	14,824	15,862	16,689
Adjusted Operating Surplus	(923)	141	506	1,169	1,397
Adjusted Operating Margin (%)	**(7.03%)**	**1.03%**	**3.41%**	**7.37%**	**8.37%**

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 4.1, 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.

6.3 <u>Cash flow strength</u>

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**. Revenue surplus** 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	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Revenue surplus less Capital Investment	3,547	4,434	5,350	6,145	6,794
Interest Expense	2,966	3,240	3,902	4,351	4,603
Interest Cover	**1.20**	**1.37**	**1.37**	**1.41**	**1.48**

The transfer of Cube stock to Loretto has strengthened the financial position with the ratio being > 1 in every year. The interest costs increase 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 increasing over the five year period.

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 £83.9m of cash generated in year 30.

6.4 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.

7. 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	Revenue surplus less Capital Investment - 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		**1.20**	**1.37**	**1.37**	**1.41**	**1.48**	**£90.4m**	**24**	**£83.9m**	
1	Cost inflation decreases by 0.5% in years 3-5	1.20	1.37	1.38	1.44	1.50	£90.2m	23	£91.5m	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 a year and cash at year 30 increases by £7.6m.
2	Rent increase reduced by 0.4% in years 2-5	1.20	1.36	1.36	1.39	1.43	£90.6m	25	£72.0m	Revenue Surplus less Capital Investment cover deteriorates slightly, though still exceeds 1 every year. The compound effect of these lower rent increases delays debt repayment period by a year and decreases cash at year 30 by £11.9m. 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.

Nr	Risk description	Revenue surplus less Capital Investment - 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		**1.20**	**1.37**	**1.37**	**1.41**	**1.48**	**£90.4m**	**24**	**£83.9m**	
3	Bad debt increases by 1%	1.15	1.32	1.33	1.37	1.42	£91.3m	25	£69.9m	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 £14m. 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 annual uplift increased by 1% from year 2 for duration of plan.	1.20	1.36	1.33	1.40	1.45	£90.6m	25	£57.8m	Interest cover is only marginally affected. Peak debt increases by £0.2m and closing cash is reduced by £26.1m. 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 (+ inflation) for duration of plan	1.11	1.29	1.30	1.34	1.40	£91.5m	25	£62.8m	Interest cover deteriorates, though still exceeds 1 every year. Peak debt increases by £1.1m and closing cash decreases by £21.1m, with debt repayment being delayed by a year. In mitigation cost efficiencies would be sought elsewhere in the event of increasing management costs.
6	Rent inc reduced by 0.4% in years 2-5, bad debt increases by 1%, repairs & maint costs increase by £250k a year (+inflation) for duration of plan	1.07	1.24	1.24	1.27	1.30	£92.7m	27	£35.9m	Interest cover deteriorates, though still exceeds 1 by year 2. Peak debt increases by £2.3m and closing cash decreases by £48m, with debt repayment being delayed by two years. In mitigation cost efficiencies would be sought elsewhere in the event of increasing management costs.

Nr	Risk description	Revenue surplus less Capital Investment - 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		**1.20**	**1.37**	**1.37**	**1.41**	**1.48**	**£90.4m**	**24**	**£83.9m**	
7	The introduction of a new housing standard requires additional capital investment of £1m over the course of years 1 and 2	0.86	1.06	1.34	1.38	1.44	£92.8m	25	£76.1m	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 2. Peak debt increases £2.4m, though debt repayment is only a year later. Closing cash reduces by £7.8m. 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.
8	New Build schemes on site in year 1 are all delayed by 3 months , delaying completions	1.21	1.37	1.35	1.42	1.47	£90.5m	24	£83.6m	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 £0.1m and cash at year 30 decreases by £0.3m. 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.

Nr	Risk description	Revenue surplus less Capital Investment - 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		**1.20**	**1.37**	**1.37**	**1.41**	**1.48**	**£90.4m**	**24**	**£83.9m**	
9	A major house builder goes into administration next year affecting almost a third of Loretto's new build programme. This causes a 6 month delay to completions and increases costs by 20% with no additional grant funding.	1.21	1.34	1.27	1.34	1.39	£95.3m	25	£66.0m	Interest cover increases in year 1 due to the delay to the scheme, meaning less debt has been drawn. This subsequently decreases in years 2 to 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 £4.9m, and closing cash decreases by £17.9m. 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 – 2021/22

1. Headlines

The emergence of the Covid-19 pandemic has a significant impact on the day to day operations of the business with the varying levels of restrictions imposed by UK and Scottish Government throughout 2020/21 requiring us to change and adapt the way we deliver services to our customers. The financial position of Dunedin Canmore has remained strong to date. The financial projections for 2021/22 assume the return of our usual service model with the relaxation of the rules, while remaining well placed to be able to adapt to restrictions being in place for longer. Provision has been retained in the projections for a higher number of tenants moving onto Universal Credit as an expected tightening of the job market impacts customers' ability to keep their rent accounts up to date and a higher allowance has been set aside to cover PPE costs for staff in year 1.

In 2020/21, Dunedin Canmore is on track to complete 58 new social rent properties and 35 mid-market rent properties. In addition, over 100 homes were transferred from the former Barony Housing Association during the year. Further investment of £3.8m in our homes is also expected to be achieved.

The 2021/22 updated financial projections include:

- Provision to build 831 new social and mid-market rent homes over the first five years, with a further 428 units to be delivered in the period up to March 2028; and

- Investment of £30.5m 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 financial benefit from increased rental and lease income and during the development periods lower statutory surpluses are 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 2021/22 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 2020 adjusted for the units transferred from Barony HA in September 2020 along with the projected new build completions during 2020/21. The 2021/22 projections assume an opening balance of 5,769 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	5,138	289	342	5,769

Over the next 7 years of the plan it is anticipated that 924 new homes for social rent will be delivered as a result of our development programme, with 598 of these units expected to be delivered in the first 5 years. It is further assumed that 28 of the supported housing units which transferred from Barony will be sold over the next three years in addition to 17 units which are expected to sell in 2020/21. These properties do not allow for tenants residing in the accommodation to live independently and a disposal and re-provisioning strategy had been previously approved by the Barony Board prior to the transfer. 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	2021/22	2022/23	2023/24	2024/25	2025/26
Opening Stock	**5,427**	**5,481**	**5,630**	**5,757**	**5,827**
New Build	54	162	142	70	170
Sales	0	-13	-15	0	0
Closing Stock	**5,481**	**5,630**	**5,757**	**5,827**	**5,997**

Other Affordable Housing

In addition to social housing DCH own investment properties for mid-market rent ("MMR"). These properties will continue to 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 2020, updated for developments completed during 2020/21. The projections include the expected delivery of 335 affordable mid-market rent properties over the next 7 years, with 233 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	2021/22	2022/23	2023/24	2024/25	2025/26
Opening Stock	**325**	**350**	**350**	**416**	**506**
New Build	25	0	66	90	52
Closing Stock	**350**	**350**	**416**	**506**	**558**

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 1.7% rent increase in April 2021. For the properties transferred from Barony HA the assumed rent increase is 2% for the first 2 years of the projections in line with the promises made to Barony tenants.

Table 4 – Rent and service charge increase assumptions

	2021/22	2022/23	2023/24	2024/25	2025/26
Increase (existing DC tenants)	1.7%	2.4%	2.9%	2.9%	2.9%
Increase (Barony tenants)	2.0%	2.0%	2.9%	2.9%	2.9%

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

Other rental income
This income reflects the lease income received from Lowther for MMR properties as well as commercial property income.

Supporting People Grants
The financial projections assume DCH will receive £477k of grant income to provide support services at Dunedin Harbour. This reflects a revised contract which is expected to be agreed before 1 April 2021. 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 £86k in 2021/22. 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)

	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Other Rental Income	2,310	2,474	2,826	3,225	3,916
Supporting People Grant	477	477	477	477	477
Workshop Net Surplus	86	88	91	94	96
Other Income	285	289	294	299	304
Total	**3,158**	**3,329**	**3,688**	**4,096**	**4,793**

2.4 Inflation Assumptions

Covid-19 continues to have a significant economic impact at a global and domestic level. Inflation levels were low prior to the emergence of the virus with lockdown restrictions and the knock on effect on businesses have causing CPI to fall to 0.6% in December 2020, a reduction from a rate of1.3% in December 2019. Despite short term demand restrictions, market views on underlying economic prospects remain strong and, on relaxation of the restrictions, prices are expected to be driven up in the coming year. The longer term outlook projects cost inflation moving back to higher levels as more normal trading conditions return through 2021/22. We have held our expectation for cost inflation to move upwards and our forecasts reflect a rate of 1.5% in 2021/22 rising up to 3% by 2022/23, with a long term outlook of 2.5% from year 5 onwards, 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

	2021/22	2022/23	2023/24	2024/25	2025/26
Cost Inflation	1.5%	3.00%	3.00%	3.00%	2.5%

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

	2021/22	2022/23	2023/24	2024/25	2025/26
Routine voids (%)	1.0%	1.0%	1.0%	1.0%	1.0%
Bad debts (%)	1.1%	1.1%	1.1%	1.1%	1.1%
Arrears (£'000)	1,535	1,645	1,726	1,674	1,645

The plan assumes voids to remain constant at 1.0% of rental income. For the properties transferred from Barony HA the void assumption is 3% which takes account of the specific service provision in supported properties. Year to date void performance in 2020/21 is 1.9%. However, the current year performance is related to backlog voids which built up during the spring 2020 lockdown restrictions which have now been cleared and the impact of social distancing requirements in place on current letting activity. It is expected that once our usual void letting can resume, performance will return to the lower levels achieved in previous years, below the level assumed and therefore providing some prudence compared to historical rates

The bad debt assumption of 1.1% (1% for former Barony tenants) is higher than current performance and has been set to allow for an increase in recognition of the potential impact of Welfare Reform and the onging move of tenants onto Universal Credit from legacy benefits. This has been set cautiously, and includes recognition of the potential impact of the pandemic on tenants' ability to pay rent and keep their accounts up to date. 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:-

- A further 1,700 tenants assumed to move on to universal credit over the next five years (a total of 3,000 tenants on UC)
- 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 the payment SHAPS pension deficit contributions due under the current recovery 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 £2,685k in 2021/22. 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)

	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Employee Costs	3,893	3,893	3,893	3,885	3,878
SHAPS Pension Contribution	806	-	-	-	-
Running Costs	3,532	3,511	3,570	3,557	3,594
Group Recharges	2,685	2,700	2,670	2,592	2,589
Total	**10,916**	**10,104**	**10,133**	**10,034**	**10,060**

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 £2,551k and £1,729k respectively in 2021/22. As new build properties are completed, additional budget is provided for the repair and maintenance of these properties. Over the five year period the average repair cost per unit (excluding inflation) is expected to decrease to £747.

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

Repairs	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Routine Maintenance	2,551	2,509	2,533	2,532	2,572
Planned Maintenance	1,729	1,744	1,790	1,819	1,843
Total	**4,279**	**4,252**	**4,323**	**4,350**	**4,414**
Average No. of Units	5,454	5,556	5,694	5,792	5,912
Average Repair cost per unit (£)	**785**	**765**	**759**	**751**	**747**

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	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Core Programme	6,060	4,940	5,069	4,887	4,893
Void Repairs	718	740	762	785	805
Medical Adaptations	166	171	176	181	186
Total	**6,944**	**5,851**	**6,007**	**5,853**	**5,883**

Scottish Government and the Scottish Housing Regulator published further guidance on the achievement of EEESH2 which requires, where possible, all properties to be bought up to EPC band B by 2032. Additional provision for capital investment has been made over the life of the plan to bring the 30 year capital investment provision to £160m which equates to an average capital investment provision per property of £30k. This aligns with the level of long terms investment JLL, the Group's valuation experts, have estimated when undertaking the most recent valuation of housing properties.

c) IT Capital Investment

In total, across the Group the financial projections provide for a 5 year IT capital investment programme of £39.5m, an increase of £20.7m from the 2020/21 financial projections. This additional investment is in recognition of the key role technology has in supporting the delivery of the key strategic aims in the Group's 2021-26 strategy. Alongside the digital aspirations for Group services to customers and staff, the funding also provides for a safe, secure and reliable technology service. Dunedin Canmore makes a capital contribution towards the overall Group IT capital costs. The table below details Dunedin Canmore's contribution over the next 5 years.

Table 11 – IT Capital Contribution (including inflation)

IT Capital Programme	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
IT Capital Contribution	763	961	792	825	622

Key investment in technology is planned across a number of areas including:

- Improved homeworking services to staff, network and voice investment across core services, cloud-hosted voice platform for staff and call centre services, improved Group connectivity aligned to mobile/agile staff service delivery, increased use of mobile devices and core desktop delivery improvements and improved end-user security.
- Moving to cloud-hosted services and closures to our data centre hosting arrangements and information security improvements. Application service and platform upgrades improving overall security and incorporating the latest features and functions
- Housing service improvements across virtual patches, improved online services and customer engagement and automating tasks and activities.
- Community digital engagement platforms and applications, aligning customer and community outcomes and providing information and collaboration services, implementing a predictive data science programme and extending and enhancing our online services
- Improved customer applications and services across mobile devices and core services (such as Home Comforts, Universal Credit and money advice, tenancy support services and digital access to housing staff for information and advice)
- Improving our digital and online repairs services though automated communications and improved access to services and trades and real-time customer feedback channels

d) <u>New Build Programme</u>

The new build programme is set out at Section 2.1 and reports 1,259 new units (924 for social rent and 335 for mid-market rent), of which 831 are anticipated to be completed within the next five years. Table 12 summarises the investment in new build homes over the next five years.

Table 12 – Development Programme cost and grant (including inflation)

	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Social Housing					
Development Costs	18,523	20,528	12,878	17,996	24,912
Grant Income	13,124	6,492	4,501	11,056	14,142
Net Cost	**5,399**	**14,036**	**8,378**	**6,940**	**10,770**
Units Completed	54	162	142	70	170
Mid Market Rent					
Development Costs	2,689	8,005	10,527	12,889	8,124
Grant Income	1,190	2,301	4,375	2,597	3,194
Net Cost	**1,499**	**5,704**	**6,153**	**10,292**	**4,929**
Units Completed	25	0	66	90	52

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 £250k per annum. Of this donation £169k 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 Wheatley 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 £57k a year.

The plan includes Helping Hand funding of £50k for the first 3 years 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.

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 <u>Operating Cost Per Unit</u>

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 13 – Operating cost per unit (excluding depreciation and inflation)

	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Operating Costs (£'000) (Excl Depreciation)	15,491	14,572	14,598	14,488	14,567
Average No. of Units in Year	5,454	5,556	5,694	5,792	5,912
Operating Cost per Unit (£) (Excl Depreciation)	**2,840**	**2,623**	**2,564**	**2,501**	**2,464**

The financial projections assume an operating cost per unit of £2,840 in 2021/22, reducing by 13.2% to £2,464 in 2025/26. 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 <u>Interest Rate Assumptions</u>

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 4.95% in 2021/22, 5% in 2021/22 and 5.1% 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 14 – Interest Rate Assumptions

	2020/21	2021/22	2022/23	2023/24	2024/25
Interest Payable (Group Funding)	4.95%	5.00%	5.10%	5.10%	5.10%
Interest Receivable	0.25%	0.50%	0.75%	1.50%	2.00%

3. Financial projections

a) Statement of Comprehensive Income

Table 15 – Income and Expenditure Projections

Statement of comprehensive income	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Net Rental Income	30,609	31,668	33,591	35,120	36,676
Other Income	3,158	3,329	3,688	4,096	4,793
Grant Income (HAG)	4,909	12,443	14,509	10,087	16,391
Total Income	**38,676**	**47,440**	**51,788**	**49,302**	**57,859**
Management and Service Costs	10,916	10,326	10,584	10,749	11,331
Repair and Maintenance Costs	4,279	4,380	4,586	4,754	4,944
Bad Debts	296	304	317	329	341
Depreciation	10,908	11,475	11,720	11,619	11,387
Operating Expenditure	**26,399**	**26,484**	**27,207**	**27,451**	**28,002**
Gain/(Loss) on Investment Properties	399	461	(3,121)	(4,721)	(1,966)
Operating Surplus	**12,676**	**21,418**	**21,460**	**17,131**	**27,891**
Operating Margin (%)	***33%***	***45%***	***41%***	***35%***	***48%***
Finance Costs	(7,274)	(7,572)	(8,543)	(9,075)	(9,500)
Valuation Adjustments	3,806	(2,060)	(522)	6,248	(4,257)
Gain/ (Loss) on sale of property	0	275	8	0	0
Statutory Surplus/(Deficit)	**9,208**	**12,061**	**12,404**	**14,303**	**14,135**

Rental income

Investment in the new build program & assumed rental increases will generate 25.9% 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 13% over the 5 years of the projections from £2,840 in 2021/22 to £2,464 in 2025/26.

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 a prudent scenario.

b) Statement of Financial Position

Table 16 – Statement of Financial Position

Statement of financial position	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Housing Assets	358,232	372,184	380,221	400,366	417,079
Other Fixed Assets	6,966	7,100	6,893	6,755	6,654
Investment Properties	36,535	45,117	52,675	61,153	67,475
Total Fixed Assets	**401,733**	**424,401**	**439,789**	**468,274**	**491,208**
Current Assets	8,963	9,073	9,155	9,102	9,073
Current Liabilities	(29,476)	(25,935)	(20,426)	(24,033)	(24,978)
Net Current Assets	**(20,513)**	**(16,863)**	**(11,271)**	**(14,931)**	**(15,906)**
Long-Term Liabilities	(167,229)	(181,486)	(190,062)	(200,583)	(208,408)
Net Assets	**213,991**	**226,053**	**238,457**	**252,760**	**266,895**
Retained Earnings	213,991	226,053	238,457	252,760	266,895
Total Reserves	**213,991**	**226,053**	**238,457**	**252,760**	**266,895**

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 22.7%, 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 2026/27. Long term liabilities also include a pension liability of £0.8m.

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

c) Cashflow

Table 17 – Cashflow Projections

Cashflow	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Net rental income	35,470	36,898	39,264	41,394	43,674
Operating Expenditure	(17,442)	(17,142)	(17,693)	(17,958)	(18,791)
Net Cash from Operating Activities	**18,028**	**19,756**	**21,572**	**23,436**	**24,883**
Core and other Capital Expenditure	(8,315)	(7,345)	(7,333)	(7,242)	(7,037)
New Build Expenditure	(21,213)	(28,533)	(23,405)	(30,885)	(33,035)
Proceeds from sale of property	0	975	580	0	0
Grant income	14,314	8,793	8,875	13,653	17,336
Net cash used in investing activities	**(15,213)**	**(26,110)**	**(21,283)**	**(24,473)**	**(22,736)**
Finance costs	(6,943)	(7,356)	(8,301)	(8,905)	(9,376)
Net movement in cash	**(4,128)**	**(13,710)**	**(8,013)**	**(9,942)**	**(7,228)**

<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.

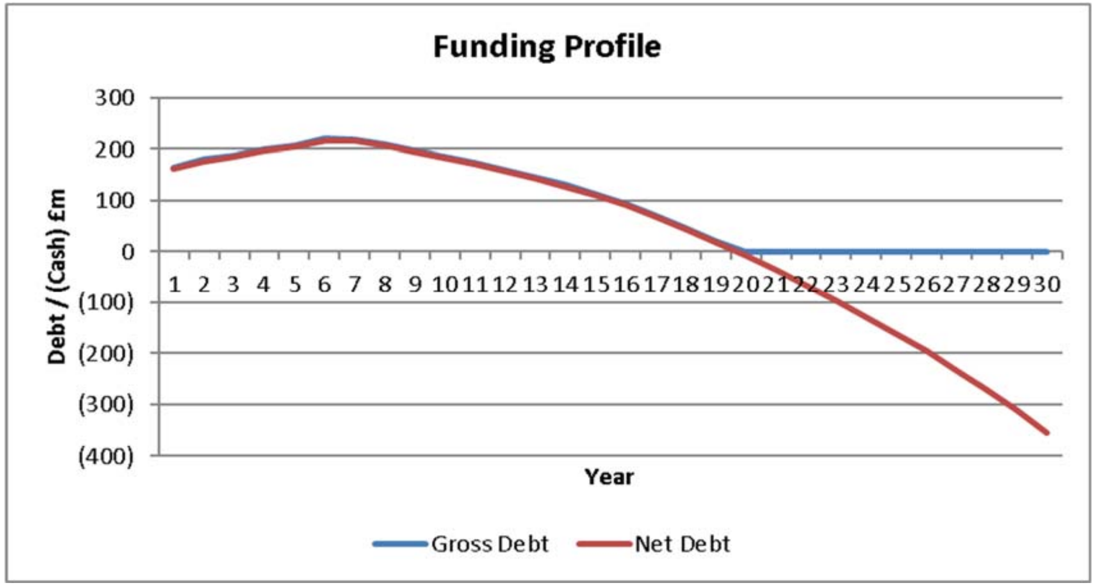
Net Movement in Cash

Across the five years of the plan we anticipate a £43.0m 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	£217.4m
Peak year	2026/27
Repayment year	2040/41 (year 20)
Closing cash	£355.1m

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	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Total Income (excluding grant income and property valuation movement)	33,767	34,997	37,280	39,215	41,469
Adjusted Operating Surplus	7,368	8,513	10,073	11,765	13,466
Adjusted Operating Margin (%)	***21.82%***	***24.33%***	***27.02%***	***30.00%***	***32.47%***

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

Cashflows 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. **Revenue surplus** 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 after deducting spend on capital investment. 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.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Revenue surplus	**18,276**	**19,988**	**21,793**	**23,384**	**24,853**
Less Capital Investment (Existing Properties)	(6,944)	(5,851)	(6,007)	(5,853)	(5,883)
Revenue surplus after capital investment	**11,332**	**14,138**	**15,786**	**17,531**	**18,970**
Net Interest Payable	(7,274)	(7,572)	(8,543)	(9,075)	(9,500)
Interest Cover	**1.56x**	**1.87x**	**1.85x**	**1.93x**	**2.00x**

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 20 of the plan with £355.1m 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.

Nr	Risk description	Revenue surplus less capital investment - 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		**1.56**	**1.87**	**1.85**	**1.93**	**2.00**	**216.3**	**20**	**355.1**	
1	Cost inflation decreases to 2.5% from year 2	1.56	1.87	1.86	1.95	2.01	252.7	20	364.3	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 £9.2m.

2	Rent increase reduced from 2.9% to 2.5% for duration of plan	1.56	1.87	1.84	1.91	1.96	218.6	22	264.2	Reduction in rental income results in worsening of interest cover, increased debt and reduced closing cash. Performance management, efficiency savings and review of services required to reduce costs.
3	Bad debt increases by 1%	1.52	1.82	1.80	1.88	1.94	219.9	21	328.4	Review of rent setting policy, operational efficiencies and service and repair levels to mitigate the financial impact of the additional bad debt costs.
4	Management costs are £250k higher each year from year 2	1.56	1.83	1.81	1.89	1.96	219.0	21	337.0	Performance monitoring to identify overspends and areas where efficiencies can be realised.
5	Repairs & maintenance costs are 5% higher from year 1	1.53	1.83	1.82	1.90	1.96	219.1	21	338.7	Performance monitoring and service review to identify areas where savings can be achieved.

6	Additional investment spend of £3m required over years 2-3 for new quality standard or regulations	1.56	1.65	1.64	1.90	1.96	221.3	21	345.0	Procurement savings and efficiencies to be sought. Review of investment programme to identify non-essential spend or works that could be deferred to a later date to accommodate additional costs within existing provisions.
7	New build programme accelerated (150 units brought forward by two years)	1.56	1.87	1.89	1.99	2.04	216.9	20	356.8	Earlier delivery of units results in improved earnings which improve interest cover. There is a marginal benefit to plan over the longer term. Consideration would need to be given to impact of changes in programme on overall borrower group covenant position.
8	New build programme delayed, (c. 280 units delayed by one year)	1.56	1.87	1.86	1.92	2.00	217.7	20	354.5	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	1.56	1.87	1.85	1.92	1.99	218.3	20	352.9	Additional development costs and delay in receipt of rents result in increase in debt and deterioration of interest cover. 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
2021/22

Wheatley Group

1 Executive Summary

These financial projections are the second update since DGHP joined the Wheatley Group in December 2019. As such they reflect the key tenant promises and the value DGHP expects to gain directly from partnership including:

- additional investment capacity for communities through an accelerated home improvement programme;
- keeping rents more affordable than they would otherwise have been;
- 1,000 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 together with the ambitions set out in our new draft strategy for 2021-2026, Your Home, Your Community, Your Future. The updated financial projections for 2021/22 include:

- Funding of £83m net of grant claims over the five years for the completion of 810 new homes for social rent with a further 200 in development and a provision for stock rationalisation which will enable the regeneration of our communities.
- Investment of £108m over the first five years in our existing properties to ensure all properties continue to meet regulatory standards and that we deliver the accelerated additional investment promised to customers.
- A cap of rent increases of 2% a year until 2023
- Increased provision for investment in our digital transformation and office accommodation strategies

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

Covid-19 continues to have a significant economic impact at a global and domestic level. Inflation levels were low prior to the emergence of the virus with lockdown restrictions and the knock on effect on businesses causing CPI to fall to 0.6% in December 2020, a reduction from a rate of 1.3% in December 2019. Despite short term demand restrictions, market views on underlying economic prospects remain strong and, on relaxation of the restrictions, prices are expected to be driven up in the coming year. The longer term outlook shows cost inflation moving back to higher levels as more normal trading conditions return through 2021/22. We have held our expectation for cost inflation to move upwards and our forecasts reflect a rate of 1.5% in 2021/22 rising up to 3% by 2022/23, with a long term outlook of 2.5% from year 5 onwards, retaining an element of prudence in our forecasts.

2.2 Stock numbers

As at 1 April 2021, DGHP will own 10,344 homes for social and mid-market rent comprising 6,995 houses and 3,349 flats (including 4 in a block). No additions or disposals are forecast during 2020/21 so this in line with stock as at 31 March 2020 as reported in the audited statutory accounts. A provision has been made within the projections for the demolition of 350 of these properties, including approximately 128 poorly performing tenement flats mostly in north west Dumfries which are currently held as void and unlettable. It is assumed that 1,010 new homes will be completed by March 2027, with 810 of these within the first five years.

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

Stock Numbers	Forecast						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Opening Units	10,344	10,343	10,340	10,402	10,609	10,904	11,054
New Build	49	47	112	257	345	200	-
Demolition	(50)	(50)	(50)	(50)	(50)	(50)	(50)
Closing Units	**10,343**	**10,340**	**10,402**	**10,609**	**10,904**	**11,054**	**11,004**

2.3 Rental Income

Opening rents are based on our average weekly rent per our current rent roll adjusted for a 2% increase in April 2021. In line with ballot commitments made to tenants, rent increases are assumed to be capped at 2% until 2023. In subsequent years, increases have been assumed at 2.9% per annum. This reflects a reduction on the increases assumed in the 2020/21 financial projections of 3.5% and is in line with assumptions across the group. Future increases will however 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	2021/22	2022/23	2023/24	2024/25	2025/26 on
Transfer Stock	2.00%	2.00%	2.90%	2.90%	2.90%
New Build	2.00%	2.00%	2.90%	2.90%	2.90%

In addition to social housing, DGHP also collect £368k per annum of rental income in respect of garages and garage sites. This is assumed to increase in line with housing stock. A further £575k is projected to be received from the rental of 101 mid-market properties. In line with grant conditions rent increases for mid-market properties are linked to CPI, assumed at 2%.

2.4 Operating Performance

Void losses are assumed at 1% throughout for the core rented stock. Year to date void performance in 2020/21 is 1.62%, however this is largely due to backlog voids which built up during the spring 2020 lockdown restrictions and the impact of social distancing requirements on letting activity later in the year. Backlog voids have been largely cleared and void loss reported in the month of December 2020 reduced to 1.12% with this expected to reduce further. For the 350 properties 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 2.25% of gross rental income in 2021/22, which is conservative compared to our performance of 1.6% in 2019/20. To manage the impact of Universal Credit this is assumed to increase to 2.5% in 2022/23. Void and bad debt assumptions are shown in the table below.

	2021/22	2022/23	2023/24	2024/25	2025/26
Voids (Retained Properties)	1.00%	1.00%	1.00%	1.00%	1.00%
Bad Debts	2.25%	2.50%	2.50%	2.50%	2.50%

Our financial projections also assume an increase in arrears over the period as a result of universal credit. The assumptions used have been updated to reflect our experience in the current year and expectations going forward :-

- A total of 1,400 tenants previously receiving housing benefit will move to UC over the five year period (3,100 tenants assumed to have already moved to UC);
- 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.

2.5 Other Income

In addition to rental income, a further £2.5m is expected to be generated by DGHP in 2021/22 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 £164k per annum (net of voids) is assumed to be received in respect of this in 2021/22. 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 – £150k 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 - £737k is projected to be received in 2021/22, this is in line with the current contract which is due to end in September 2022. There is a likelihood that this contract will be extended further however this has not been assumed within the projections
- Supporting People Grant – Grant Income of £119k in respect of support activities is reflected in 2021/22 only.
- Aids and Adaptations - Grant income is assumed to be received each year to fund medical adaptations. This is projected to be in line with costs with £500k assumed in 2021/22, reducing to £350k by year five.

- RHI grant - £433k of income is projected to be received in 2021/22 only
- Young Persons Project - Lottery funding for Young Persons Project of £92k per annum is expected to be received until September 2022. Match funding from Dumfries and Galloway Council has been assumed over the same period.

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

Other Income	2021/22	2022/23	2023/24	2024/25	2025/26
Service Charges	164	171	175	180	185
Leased Properties	193	193	191	191	191
Factoring	150	155	159	164	168
Aids & Adaptations Grant	500	500	450	450	350
Temporary Accommodation	737	351	0	0	0
Supporting People Grant	119	0	0	0	0
RHI Grants	439	0	0	0	0
Young Person Project	185	93	0	0	0
Total Income	**2,487**	**1,461**	**975**	**985**	**894**

2.6 Staff and Other Management Costs

Staff costs have been updated to reflect the new staffing structure put in place in 2020/21 as part of the implementation of our new operating model. This new model enhances services to our customers and includes the introduction of 1:200 patch sizes. A move to Group services has been assumed from April 2021 with employees in support roles, Finance, IT, Legal etc assumed to be seconded to Wheatley Solutions. Total direct staff costs in 2021/22, including on costs are assumed to be £3.3m. No additional direct employee cost savings have been assumed in future years however a provision of £300k has been made in 2021/22 for any further restructuring costs. Salary increases are assumed in line with assumptions across the group at 1.5% for three years and 2% each year thereafter.

Running costs have been updated to reflect current year forecast and the transfer of costs to Wheatley Solutions as part of the move to group services. Savings in respect of our office accommodation strategy and procurement savings result in a reduction in costs from 2022/23 on.

Recharges from Wheatley Solutions for the provision of services such as the 24/7 customer service centre, transactional teams, legal, IT and Finance have been assumed at £4.1m and have been reflected on a financially neutral basis. The table below shows assumed management costs for the five year period.

Management Costs	2021/22	2022/23	2023/24	2024/25	2025/26
Employee Costs - Direct	3,307	3,357	3,407	3,475	3,545
Running Costs - Direct	2,488	2,183	2,263	2,653	2,500
Wheatley Solutions Recharges	4,149	4,246	4,346	4,457	4,559
Management Costs	**9,944**	**9,786**	**10,015**	**10,586**	**10,603**

2.7 Repair Costs

Our repairs service is a key priority for our customers so when our existing repairs contracts were due for renewal the decision was made to bring repairs 'in-house'. Bringing repairs and maintenance in house provided the opportunity to improve services for customers, ensuring most repairs are completed on the first visit. Costs for repairs and maintenance have been assumed in line with previous contract costs with a reduction equivalent to the VAT payable recognised from 2021/22 at a prudent level of £0.5m.

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

Repairs and Maintenance	2021/22	2022/23	2023/24	2024/25	2025/26
Reactive repairs	5,119	5,295	5,479	5,708	5,979
Heating	1,571	1,618	1,667	1,717	1,760
Landscaping	1,014	1,045	1,076	1,108	1,136
Other	428	456	486	544	643
Minor Planned Works	546	562	579	596	611
Compliance	1,413	1,407	1,448	1,645	1,171
Repairs Management	724	735	746	761	776
In house saving	(457)	(470)	(484)	(499)	(511)
Total Repair Costs	**10,359**	**10,647**	**10,997**	**11,581**	**11,564**

2.8 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 £4.0m. 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.

2.9 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. Covid 19 restrictions resulted in a delay to delivery of these works in 2020/21 however increased provisions have been assumed in the first two years of the projections to ensure these works can be completed as quickly as possible.

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

£000s	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Core Investment	26,307	17,411	12,864	12,607	12,868	82,058
Compliance (Capital)	979	0	0	0	0	979
Customer Voice	1,532	544	544	544	544	3,709
Capitalised Voids	2,900	2,987	3,077	3,169	3,248	15,381
Capitalised Employee Costs	1,098	1,114	1,131	1,154	1,177	5,674
Total	**32,816**	**22,057**	**17,616**	**17,474**	**17,837**	**107,800**

Funding of over £82m has been included over the first five years of the projections for our core investment programme and lifecycle replacements. This includes £20m for replacement of windows and doors, £20m for kitchens, £12m for boilers and heating systems and £4m in respect of ballot promises. A provision of £3.7m has also been made over the 5 years for our new Customer Voice fund. This provision will be used for tenant directed investment works, building customer engagement into our investment programme and ensuring we deliver the projects most important to them.

The investment programme in the later years of the plan has been informed by a detailed stock condition survey, the final version of which was completed by Savills in October 2019.

Investment in new housing

In addition to investment in existing homes, the extra funding made available through the partnership with Wheatley has enabled us to invest in new homes. The restructure of our funding arrangements in December 2019 increased our development capacity and provided sufficient funding to allow for the planned delivery of 1,000 new homes for social rent. Due to the site closures and changes in working practices resulting from the Covid-19 pandemic during 2020/21, delivery of our programme was delayed and we now anticipate 810 new homes will be completed over the first five years of the programme. Development costs and grant have been updated to reflect our latest expectations. These are shown in the table below:

£000s	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Development Cost	16,217	17,106	34,367	52,058	41,795	**161,544**
Grant Income	(6,855)	(10,291)	(20,592)	(26,546)	(14,420)	**(78,705)**
Capitalised New Build Staff	574	583	591	603	615	**2,966**
Capitalised Interest	179	90	306	578	849	**2,003**
Net Cost	**10,116**	**7,488**	**14,673**	**26,694**	**28,838**	**87,808**
Units Completed	49	47	112	257	345	**810**

Investment in non-housing assets
In addition to investment in housing a provision of £9.6m has been made over the five year period for implementation of our digital transformation and office accommodation strategy.

2.10 Funding

The financial projections reflect the new funding arrangements put in place in December 2019 following the refinancing of the Dexia loan. The £130m Dexia facility (of which only £110m was drawn) was repaid and the following loans were put in place:

- 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 – £20m fixed rate debt with a 15 year term with payment of interest and capital at the repayment date

The existing THFC and Allia fixed rate facilities, totalling £55m, remained in place. The financial projections reflect the rates and repayment terms per the funding agreements. Transactional banking is provided by RBS.

As at 31 December 2020 DGHP had drawn debt of £190.3m and had cash of £66.5m. Our financial projections assume that, given the significant reduction in investment and repairs spend in the current year, DGHP will have a cash balance of £67m as at 1 April 2021.

As a result of the economic disruption caused by Covid-19, interest rates in the UK are at an all-time low. While it is projected that they will eventually increase it is difficult to predict how quickly this will occur. Our financial projections therefore remain conservative, with variable rates (which apply on the RBS loan) assumed be 1.50% next year – the actual LIBOR rate is below 0.1% 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.

Interest rate assumptions	Forecast				
	2021/22	2022/23	2023/24	2024/25	2025/26
Interest Payable (LIBOR)	1.50%	3.00%	4.50%	5.00%	5.00%
Interest Receivable	0.25%	0.50%	0.75%	1.50%	2.00%

3. Financial projections – next 5 years

The tables below show the projected financial statements for the five year period from 2021 to 2026.

3.1 Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Net Rental Income	44,596	45,660	47,313	49,196	52,127
Other Income	2,487	1,461	975	985	894
Grant Income	5,290	4,246	11,560	21,197	28,057
Total Income	**52,373**	**51,367**	**59,848**	**71,378**	**81,078**
Management Costs	(9,944)	(9,786)	(10,015)	(10,586)	(10,603)
Repairs & Maintenance	(10,359)	(10,647)	(10,997)	(11,581)	(11,564)
Demolition and ER/VR	(549)	(565)	(814)	(838)	(859)
Wider Role Activities	(885)	(514)	(222)	(228)	(234)
Bad Debts	(1,052)	(1,180)	(1,225)	(1,274)	(1,348)
Depreciation	(11,510)	(12,624)	(13,649)	(14,210)	(14,522)
Operating Expenditure	**(34,298)**	**(35,316)**	**(36,922)**	**(38,717)**	**(39,132)**
Gain on Investment Properties	81	82	82	83	84
Operating Surplus	**18,156**	**16,132**	**23,008**	**32,744**	**42,031**
Operating Margin	**35%**	**31%**	**38%**	**46%**	**52%**
Net Finance Costs	(6,108)	(6,192)	(6,012)	(6,032)	(7,276)
Movement in Value of Social Housing	(28,975)	(15,196)	(17,227)	(31,983)	(42,737)
Total comprehensive income	**(16,927)**	**(5,256)**	**(231)**	**(5,272)**	**(7,983)**

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 our 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.

Operating Expenditure

Staff and running cost assumptions have been updated to reflect implementation of the new operating model including a move to Group Services. Savings in running costs from procurement and our office accommodation strategy have been assumed in the first two years.

Repairs and maintenance and major repairs are assumed to remain relatively stable with the decrease forecast in year five the result of a reduction in compliance works. While the repairs service was brought in house in April 2020, costs have been assumed in line with previous contract levels and do not reflect any additional savings other than a reduction in VAT.

Wider role activities include the cost of the handyperson service, temporary accommodation and young person projects. Costs reduce over the period as the temporary accommodation and young person project are assumed to end in September 2022.

Operating Surplus

DGHP are projected to make an operating surplus in all years with this reducing in year two as a result of a reduction in new build grant recognised and a fall in other income as funding for short term initiatives comes to an end. From year 2 on, operating surplus increases year on year due to increases in grant income recognised in turnover in respect of new build. The operating margin of 35% in 2021/22 is expected to increase to over 50% by 2025/26.

Excluding the impact of grant income and valuation adjustments, underlying operating surplus remains relatively stable over the period with the margin between 23% and 27% in all years.

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. Interest payable remains relatively constant over the first four years as there is sufficient cash to fund the investment and development programme. In year five additional funding is assumed to be drawn.

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				
	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£’000
Housing assets	378,753	391,649	415,010	441,247	446,601
Investment Properties	8,163	8,244	8,327	8,410	8,494
Other Fixed Assets	4,851	5,539	5,512	5,221	4,807
Total Fixed Assets	**391,767**	**405,433**	**428,849**	**454,879**	**459,902**
Current Assets	44,388	32,764	19,435	10,592	10,618
Current Liabilities	(23,401)	(29,603)	(38,796)	(44,310)	(30,840)
Net Current (Liabilities)/Assets	**20,987**	**3,160**	**(19,361)**	**(33,718)**	**(20,223)**
Long term liabilities	(192,106)	(193,202)	(194,328)	(211,272)	(237,774)
Provisions (LGPS Pension)	(2,765)	(2,765)	(2,765)	(2,765)	(2,765)
Net Assets	**217,883**	**212,626**	**212,395**	**207,124**	**199,141**
Total Reserves	**217,883**	**212,626**	**212,395**	**207,124**	**199,141**

The information presented in the table above includes inflation.

Fixed Assets

In accordance with our accounting policy housing properties have been forecast at valuation with the opening valuation based on the figures reported in DGHP’s audited statutory accounts. Over the period shown above, housing and investment properties are expected to increase by 21% 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 £63.8m as at 1st April 2020 with this forecast to increase to £67.2m by 31st March 2021 as a result of reductions in repairs, investment and development spend in 2020/21 due to Covid-19 restrictions. 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. The measure of Revenue Surplus removes items that are non-cash and/or unrelated to operations, such as grant income and property valuation movements, which, after the deduction of capital investment in existing properties, is used to assess the funds available to meet interest payments and pay for all costs related to current stock.

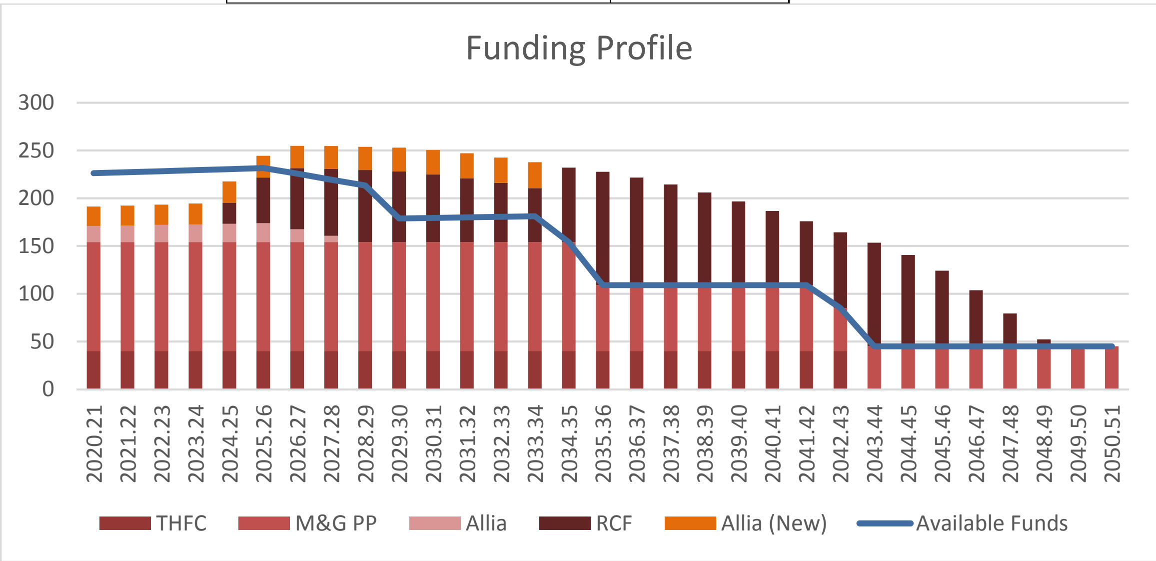
Cash Flow Strength	Forecast				
	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
	£'000	£'000	£'000	£'000	£'000
Revenue Surplus	24,295	24,428	25,015	25,674	28,412
Less Capital Investment (Existing Properties)	(32,816)	(22,057)	(17,616)	(17,474)	(17,837)
Revenue Surplus less Capital Investment	**(8,521)**	**2,372**	**7,399**	**8,200**	**10,574**
Net Finance Costs	(6,108)	(6,192)	(6,012)	(6,032)	(7,276)
Cover	**(14,629)**	**(3,821)**	**1,387**	**2,167**	**3,298**

Due to the high level of investment assumed in existing homes, Revenue Surplus less Capital Investment is negative in the first year. As income increases and investment required reduces the measure becomes positive and by 2023/24 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 2049/50 of the plan with £41.4m of cash generated by year 30.

4. Funding and debt profile

The financial projections reflect the M&G £114m private placement, £35m revolving capital facility, £35m facility from Allia and £40m THFC facility. The table and graph below show the key funding indicators and funding profile by facility for DGHP

Debt indicator	Value
Peak debt (net)	£242.7m
Peak debt year	2026/27
Debt repayment year	2049/50
Closing cash	£41.4m



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 2027/28 of the plan and thereafter the debt levels reduce. By 2049/50, there will be sufficient cash to repay debt with an estimated closing cash balance of £41.4m.

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 :-

		2021/22	2022/23	2023/24	2024/25	2025/26
Interest Cover (M&G)	DGHP	390.0%	392.4%	399.5%	391.7%	352.2%
	Covenant (> than)	**110.0%**	**110.0%**	**110.0%**	**110.0%**	**110.0%**
	Headroom	£17.4m	£17.6m	£18.1m	£18.5m	£19.5m
Interest Cover (RBS)	DGHP	218.0%	279.7%	274.6%	271.4%	252.3%
	Covenant (> than)	**110.0%**	**110.0%**	**110.0%**	**110.0%**	**110.0%**
	Headroom	£6.7m	£10.6m	£10.3m	£10.6m	£11.5m
Net Debt / Historic Cost (RBS)	DGHP	48.2%	46.5%	46.0%	46.4%	45.2%
	Covenant (< than)	**60.0%**	**60.0%**	**60.0%**	**60.0%**	**60.0%**
	Headroom	£37.8m	£48.3m	£54.9m	£60.6m	£76.4m

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 manage the impact of further significant disruption to our operations as a result of Covid-19, including the impact on our customers' ability to pay their rent, further delays to delivery of our investment programme and the potential for additional "catch up" costs once restrictions are eased.
- How we best mitigate the risk of the current economic climate including the potential 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
- 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	
2021/22 Financial Projections		Y	**£6.7m**	**£242.7m**	**29**	
1	Inflation reduces to 1.5% in 2021/22 and 2.5% thereafter. Interest rates fall to 2% long term. No change to assumed rent increases.	Y	£6.7m	£235.7m	26	As expected, this improves the financial position with lower peak debt and repayment in year 26.
2	Rent increase reduced to 2.5% for plan duration	Y	£6.7m	£246.1m	Not repaid within 30 years	Review operating model and repairs service to seek additional efficiencies.
4	Voids are 1% higher	Y	£6.3m	£246.3m	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	£6.5m	£244.4m	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	Management costs increase by £0.5m	Y	£6.2m	£251.6m	Not repaid within 30 years	Performance monitoring to identify overspends and areas for efficiencies to be realised
7	Reactive repairs costs increase by 20% in years 1 and 2	Y	£5.7m	£245.1m	30	Performance monitoring and service review to identify areas where efficiency savings can be realised.
8	Delay in delivery of investment programme. £15m planned for year 1 slips to years 2 and 3	Y	£5.4m	£242.5m	29	Investment could be smoothed over a longer period of time or efficiencies sought in other areas to offset the impact in years 2 and 3

9	Investment spend increases by £2m in each of years 2-4 due to regulatory changes	Y	£6.7m	£249.7m	30	Performance monitoring and review services to identify overspends and areas for efficiencies to be realised
10	Development costs are 10% higher on 6 legacy schemes with no change in grant	Y	£6.7m	£248.1m	30	All schemes subject to appraisal and board approval prior commencement.

Wheatley Care

Five year financial projections and 2021/22 budget

Making homes and lives better
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Wheatley Solutions Financial Projections 2021/22

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 assume the provision of services to DGHP from the start of 2021/22 financial year. Corporate and back office costs for DGHP are included in the projections and the amounts included in the financial projections for DGHP shared services will be recharged to DGHP in full on a cost neutral basis.

Solutions provide the following services:

- Executive Team
- Employee Relations
- Marketing and Communications
- Company Secretary and Community Governance
- 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 2021/22 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 2021/22 onwards in line with FCA approval being granted during 2020/21 and Wheatley Solutions providing these services from December 2020.

The regulated insurance activities in the table reflect the anticipated insurance premium costs for both insurance schemes.

Table 1: Operating costs

Wheatley Solutions	2021/22	2022/23	2023/24	2024/25	2025/26
Costs £000s					
Staff	16,938	16,747	16,681	16,681	16,681
Running costs	12,747	13,063	12,870	12,235	12,235
Regulated insurance activities	3,609	3,609	3,609	3,609	3,609
Total	**33,293**	**33,418**	**33,159**	**32,525**	**32,525**

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.

2.2 Inflation

Covid-19 continues to have a significant economic impact at a global and domestic level. Inflation levels were low prior to the emergence of the virus; lockdown restrictions and the knock on effect on businesses have caused CPI to fall to 0.6% in December 2020, a reduction from a rate of1.3% in December 2019. Despite short term demand restrictions, market views on underlying economic prospects remain strong and, on relaxation of the restrictions, prices are expected to be driven up in the coming year. The longer term outlook projects cost inflation moving back to higher levels as more normal trading conditions return through 2021/22. We have held our expectation for cost inflation to move upwards and our forecasts reflect a rate of 1.5% in 2021/22 rising up to 3% by 2022/23, with a long term outlook of 2.5% from year 5 onwards, retaining an element of prudence in our forecasts.

2.3 The general cost inflation rate assumed for running costs/overheads within the financial projections are shown in the table below.

Table 2 – Cost Inflation assumptions

	21/22	22/23	23/24	24/25	25/26
General Cost Inflation	1.50%	3.00%	3.00%	3.00%	2.50%

The assumption in relation to employee cost inflation is 1.5% per annum up to and including financial year 2023/24 and then 2% thereafter.

Table 3 below shows how projected operating costs are recharged across the 5 year period. These figures include assumed inflation, pay rises and a 5% mark up to comply with transfer pricing regulations.

Table 3: Income and expenditure statement

Wheatley Solutions	2021/22	2022/23	2023/24	2024/25	2025/26
Costs £000s					
Staff	17,785	17,848	18,044	18,405	18,773
Running costs	13,384	14,127	14,336	14,038	14,389
Regulated insurance activities	3,609	3,609	3,609	3,609	3,609
Total	**34,778**	**35,583**	**35,989**	**36,052**	**36,771**
Income £000s					
Income from recharges	30,698	31,504	31,909	31,972	32,691
Income from regulated insurance activities	4,083	4,083	4,083	4,083	4,083
Total	**34,781**	**35,586**	**35,992**	**36,055**	**36,774**
Profit before tax	**3**	**3**	**3**	**3**	**3**
Tax	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**
Profit after tax	**2**	**2**	**2**	**2**	**2**

2.4 As shown in the income statement in Table 3, income received from recharges to 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.

2.5 Income from regulated insurance activities

FCA approval has now been granted and regulated insurance activities are provided to factored homeowners by Solutions. Commission on insurance activities is now recognised as income with a corresponding reduction in the recharge to Lowther for their share of Wheatley Solutions services.

2.6 As in the prior year, the five year projections incorporate a mark-up on intercompany charges at 5% to comply with HMRC transfer pricing regulations. This allows Wheatley Solutions' and each subsidiary's management accounts to reflect the marked-up charge and ensures any need for an end of year adjustment.

The financial projections make provision for an annual rental charge to Solutions from GHA and DGHP, as owners of office hubs used by Solutions staff.

2.7 Taxation

To ensure Wheatley Solutions is FCA compliant it is required to meet FCA minimum capital requirements and retain reserves at the level of 2.5% of recurring income from insurance activities. In the five year projections the reserves are forecast to increase by an inflationary element in line with the income projections for the regulated insurance activities to maintain compliant with this requirement. 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 be subject to corporation tax.

2.8 Efficiency savings

Wheatley Solutions has successfully delivered planned costs savings in recent years, and the financial projections reflect these through staff and running cost projections, with the opening 2021/22 staff cost base reflecting an annualised reduction of £1.3m achieved through the earlier introduction of the new staff operating model.

2.9 In the period of the 5 year projections, incremental savings are assumed with employee costs planned to reduce by £257k in real terms over the 5-year period with approximately £200k of staff cost reductions achieved by March 2022. These savings will be delivered through our well-established workforce planning process.

2.10 Efficiencies are also targeted in running costs with costs reducing by £512k in real terms by 2024/25. Key areas of focus over the period are reductions in office running costs facilitated by the changes to the staff operating model and the re-designation of a substantial number of Solutions staff as home based workers. In addition, running costs efficiencies are planned through the promotion of online account servicing and a modernised customer engagement framework supported by our digital transformation strategy helping to reduce print and mailing costs. The integration of DGHP to group wide systems will also allow us to take advantage of cost efficiencies in IT support and maintenance costs.

2.11 Providing value for money services to the Group's RSL and commercial subsidiaries is an important strategic objective for Wheatley Solutions. Costs of key services, have been compared to recent Housemark benchmarking which, where there were measures available, showed that in Wheatley Solutions costs per property of:

- Finance is £109 per property in Wheatley compared to a median cost of £215 per property in Housemark peer group of large housing organisations
- IT is £166 per property for Wheatley subsidiaries which sits in the lowest spend quartile when compared against organisations of a similar size where the median spend was £196 per property.

2.12 <u>Group service recharges</u>

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. In DGHP's case, the recharge reflects the cost of its back office functions so as to ensure financial neutrality.

Based on this calculation the percentage charged to each subsidiary is estimated to be as follows for 2021/22 financial year:

	GHA	Cube	WLHP	Loretto Housing	Wheatley Care	Dunedin Canmore	Lowther	Foundation	DGHP
Allocation	61.65%	4.55%	0.38%	1.38%	0.82%	8.61%	7.66%	0.98%	13.98%

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.

2.13 Capital Investment

Wheatley Solutions manages IT investment for the group, although all assets are purchased through our charitable RSLs following advice 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). In total, across the Group the financial projections provide for a 5 year IT capital investment programme of £39.5m, an increase of £20.7mfrom the 2020/21 financial projections. This additional investment is in recognition of the key role technology has in supporting the delivery of the key strategic aims in the Group's 2021-26 strategy. Alongside the digital aspirations for Group services to customers and staff, the funding also provides for a safe, secure and reliable technology service.

2.14 The IT capital investment programme has been split across a number of key themes shown in the table below:

Table 4: IT Capital investment

	2021/22	2022/23	2024/25	2025/26	2026/27	Years 1-5
Investment themes	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Better online services	815	1,755	380	1,175	2,325	6,450
Housing service delivery	65	875	470	165	165	1,740
Bringing IT home	1,048	1,020	1,060	1,715	460	5,303
Repairs	400	1,375	965	1,165	965	4,870
W.E. Care	225	120	75	250	25	695
Common systems	2,874	900	850	400	0	5,024
Core platforms and security	1,480	1,850	2,450	1,700	650	8,130
Capitalised staffing	1,463	1,463	1,463	1,463	1,463	7,313
Total expenditure	**8,370**	**9,358**	**7,713**	**8,033**	**6,053**	**39,525**

This investment will support key technology investments across:

- Improved homeworking services to staff and across our new collaborative hub estate in support of our network
- Network and voice investment across core services, cloud-hosted voice platform for staff and call centre services, improved Group connectivity across VPN and WiFi services aligned to mobile/agile staff service delivery
- Ongoing improvements and increased use of mobile devices (laptops, tablets, phones) across all roles, including upgrades/replacements

- Core desktop delivery improvements through a fully-managed infrastructure as a service (“IAAS”) desktop hosted service, improving availability, simplifying configuration and management, providing a modern desktop experience and improving end-user security.
- Azure cloud service migration – moving across hybrid models of delivery to cloud-hosted services and closures to our data centre hosting arrangements
- Information security improvements across all core services intended to improve the safety and security of information processed by staff and the devices they use as well as the services they access including cloud service security, penetration testing and remediation, security service and protection improvements
- Application service and platform upgrades and refreshes ensuring that primary applications are deployed on the latest vendor releases, improving overall security posture and the latest features and functions
- Delivering a common platform and service technology service to all subsidiaries through the integration of DGHP and consolidation of strategic services

Additional Digital Strategy outcomes include delivering a business transformation strategy across housing, care, repairs, customer service delivery and online services such as:

- Housing service improvements across virtual patches, improved online services and customer engagement
- Community digital engagement platforms and applications, aligning customer and community outcomes and providing information and collaboration services
- Automating common tasks and activities, including: scheduling and rostering; customer communications and feedback; and improving our online support and knowledge for staff and customers
- Delivering a mobile care platform to over 700 care staff, improving our care in the home offerings and service user engagements
- Improving our data, information, reporting and analytics functions across all key services and implementing a predictive data science programme across tenant, asset and service delivery models as well as establishing a team to improve overall digital adoption and look to maximise digital transformation opportunities across staff and customers

- Extending and enhancing our online services through customer journey mapping, personalised multi-channel engagement and integration of social media platforms for customer service delivery
- Improved customer applications and services across mobile devices and core services (such as Home Comforts, Universal Credit and money advice, tenancy support services and digital access to housing staff for information and advice)
- Improving our digital and online repairs services though a redesign and architected technology platform with multichannel integration, automated communications and improved access to services, trades and realtime feedback channels

2.15 Funding for IT capital investment is provided for in the financial projections of the Group subsidiaries. The capital contribution each subsidiary is planned to make towards this is included in the table below.

Table 5: IT Capital contribution by subsidiary

Wheatley Solutions	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Investment £000s						
IT Capital	8,370	9,358	7,713	8,033	6,053	**39,525**
Capital contribution £000s						
GHA	4,633	5,831	4,806	5,009	3,775	24,054
Cube	434	547	451	470	354	2,257
WLHP	67	84	69	72	54	345
Loretto Housing	165	208	171	178	134	857
Dunedin Canmore	763	961	792	825	622	3,962
DGHP	2,144	1,500	1,235	1,285	970	7,134
Lowther	164	225	190	193	143	916
Total	**8,370**	**9,358**	**7,713**	**8,033**	**6,053**	**39,525**

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, inflationary pay uplifts 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.

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Wheatley Foundation Financial Projections 2021/22

Classified as Internal

1. Strategic context

1.1 The Foundation provides a high profile vehicle through which the Group can support our communities, driving forward and sustaining our community benefit activities. Having a charitable foundation enables the expertise and track-record that exists in many Group subsidiaries to be shared more widely for the benefit of tenants across the Group, and brings increased coherence to our activities. The Foundation's brand and identity develops to reinforce the Group's reputation for supporting better lives. This is evidenced by the high profile external funding awards secured previously from the Scottish Government and National Lottery.

1.2 The Foundation plays a key role in the Group's response to the Covid-19 pandemic and, in an extension of the EatWell programme, the Foundation supported 9,736 households for a period of up to 6 weeks with either essential food packages or supermarket vouchers at a value of £1,238k to customers in the period up to the end of December 2020, redirecting the resources at their disposal to where they were needed most in our communities.

2. Wheatley Foundation Financial Projections

2.1 The Foundation's income is primarily received from the other subsidiaries within the Group and includes gift aid payments from Lowther Homes, DGHP and contributions from the RSLs. The other source of funding is by way of external grants generated by the Foundation team.

2.2 This income will be used to fund a number of projects and initiatives that will benefit customers and communities across the group. These initiatives include projects such as Wheatley Works, educational attainment, Home Comforts and Eat Well services, Financial Inclusion and a Group wide modern apprentice programme which are intended to improve the prospects and lives of our customers and investment in strong and sustainable communities through our community projects and partnerships.

2.3 The financial projections also assume a level of external grant income in order to support Foundation activities. For the financial projections, these are split into two categories:

- Confirmed external grants. These grants have either been awarded already, such as the remaining year of the three year Scottish Government partnership award of £250k for 2021/22, or are grants that we have confidence will be awarded for 2021/22 in line with 2020/21 awards such as the Skills Development Scotland and Glasgow Guarantee grant.

- Targeted external grants. This is an area targeted to help grow the impact of the Foundation. A number of discussions are ongoing with partners to secure funding for next year and beyond, to look for additional, publicly available, sources of funding to match fund our contributions in specific projects. Amounts of new funding have been assumed from financial years 2021/22 onwards. The new build framework that all new Wheatley Group housing developments are delivered include a community benefit clause under which developers provide a contribution of £775 per new build property to the Foundation. These funds will help support activities in the local areas to which they relate.

2.4 The expenditure allocations in the table below are provisional based on committed initiatives but with flexibility built in so that the Foundation Board has sufficient scope to consider further initiatives within each of the key programmes. The Foundation Board also has the flexibility during the course of each financial year to redirect resources between key programmes if required.

2.5 In addition to spend on key programmes, there is also an element of overheads. These are assumed to be £1,085k in 2021/22 and relates primarily to the staff that bid for funding and administer monies available on behalf of the Wheatley Foundation and also includes a contribution to services received from Wheatley Solutions.

Inflation

2.6 Covid-19 continues to have a significant economic impact at a global and domestic level. Inflation levels were low prior to the emergence of the virus; lockdown restrictions and the knock on effect on businesses have caused CPI to fall to 0.6% in December 2020, a reduction from a rate of1.3% in December 2019. Despite short term demand restrictions, market views on underlying economic prospects remain strong and, on relaxation of the restrictions, prices will be driven up in the coming year. The longer term outlook shows cost inflation moving back to higher levels as more normal trading conditions return through 2021/22. We have held our expectation for cost inflation to move upwards and our forecasts reflect a rate of 1.5% in 2021/22 rising up to 3% by 2022/23, with a long term outlook of 2.5% from year 5 onwards, retaining an element of prudence in our forecasts.

2.7 The general cost inflation rate assumed for running costs/overheads within the financial projections are shown in the table below.

Table 1 – Cost Inflation assumptions

	21/22	22/23	23/24	24/25	25/26
General Cost Inflation	1.50%	3.00%	3.00%	3.00%	2.50%

The assumption in relation to employee cost inflation is 1.5% per annum up to and including financial year 2023/24 and then 2% thereafter.

Table 2 – Projected Income and Expenditure

2.8 The following table shows the projected income and expenditure on the key programmes over the five-year period including inflation and pay increases:

	2021/22	2022/23	2024/25	2025/26	2026/27
Income	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gift Aid from Lowther/DGHP	1,539	1,680	1,700	1,700	1,800
Contribution from RSLs	2,464	2,583	2,602	2,622	2,641
External grant	1,010	1,010	1,010	1,010	1,010
Total income	**5,013**	**5,273**	**5,312**	**5,332**	**5,451**
Expenditure					
Overheads	1,085	1,101	1,118	1,140	1,162
Tackling Poverty & Social Inclusion	2,371	2,367	2,414	2,470	2,590
Education	251	210	160	160	160
Training & Employment	1,406	1,418	1,581	1,594	1,618
Sports/Arts	20	21	22	22	23
Digital Inclusion	64	66	68	70	72
Total expenditure	**5,198**	**5,183**	**5,362**	**5,456**	**5,624**
Net cash from operating activities	**(185)**	**90**	**(50)**	**(124)**	**(173)**
Opening cash	**1,103**	**918**	**1,008**	**959**	**835**
Closing cash	**918**	**1,008**	**959**	**835**	**661**

2.9 Closing cash balances for the first 3 years are projected to be relatively high at over £900k each year. This allows some flexibility around meeting the external grant income for those years. Year 4 projections onwards assume a higher level of spend in order to full utilise the cash available for community projects.

2.10 Overall, expenditure is broadly assumed to be equivalent to income each year, i.e. all monies received are assumed to be spent on community projects and it is not anticipated that the Foundation will generate any material surpluses in any given year.

Key Foundation Programmes:

- Tackling Poverty & Social Inclusion
  - My Great Start project. This provides financial inclusion advice with a focus on preventative measures in order to help tenancies succeed. The projections reflect an expansion of the service to include DGHP customers.
  - Welfare benefits and fuel advice service delivered to communities across the group at a projected cost of £1.5m p.a. Welfare Benefits and Fuel Advice services are delivered to communities across the Group, with a positive impact particularly for customers most affected by the introduction of Universal Credit. This service is funded by additional contributions from the RSLs. The team continues to deliver on the £229k award secured from the Energy Saving Trust Energy Redress Scheme, which redistributes money from major energy suppliers. This grant has meant the service being able to help a greater number of vulnerable customers who are on Universal Credit.
  - Barony Trust Response Fund has been introduced to help customers facing financial hardship, funded from the £107k donation made during 2019/20 by the Barony Charitable Trust. These funds have been ring fenced to support this project at an average of £20k pa with a launch due during 2021 calendar year.
  - Eat Well supports vulnerable customers to access emergency food packages delivered for up to 6 weeks. Home Comforts provides free refurbished furniture, electrical appliances and white goods to help customers on low incomes furnish their homes and access essential items.
  - You Choose Challenge. This is a new initiative to allow customers a greater say in where community benefits are targeted and is targeted to launch during 2021/22 financial year. The financial projections include an allocation of £150k pa for this initiative.

- Education
  - Bursaries programme. The 71 customers who benefit from bursaries to support their further education in 2020/21 are assumed to continue and an allocation has been made to support a further 50 who are due to begin their studies in autumn 2021.
  - The Foundation will continue to support the Children's University across the next 2 years, which works in partnership with schools to support and recognise learning through extra-curricular learning experiences, encouraging access to children of all backgrounds.

- Training and Employment
  - Wheatley Works programme to encourage Wheatley Group suppliers to create over 750 new job and training opportunities for people within our communities during 2021/22. This includes:
    - Training places on a range of Foundation employability programmes, such as the Changing Lives 12-month training programme; and pre-employment training courses supporting work preparation, such as Environmental Roots;
    - Work with Group suppliers and contractors to maximise work placements, apprenticeships and job opportunities for priority groups through Community Benefits;
    - Modern Apprenticeship opportunities for young people including Business Administration, Trade and Environmental Apprenticeship places within the Group.
  - Support for the City Building Joint Venture apprenticeship programme is provided for in financial projections. The current arrangement ends in March 2025.

- Sports/Arts
  - Support to initiatives that help our customers access local activities and social connections.

- Digital Inclusion
  - The Foundation also promotes Digital Inclusion for customers by supporting access to 38 Click and Connect centres as a free resource based in Wheatley communities, providing computer access, online learning and digital participation opportunities.

Any movement in income would require to be offset by a corresponding change in spend and would therefore have no impact on cashflows. Conversely, any income not spent on projects in a particular year will be carried forward to the following year.

3. Risk Analysis

3.1 One of the key considerations for the Wheatley Foundation is to manage its cashflow to avoid any cash shortfalls. This risk is mitigated through regular financial monitoring to the Foundation Board so that the Board are made aware of the available cash that can be committed before any decision is taken on whether to approve a new initiative that is looking to secure funding.

3.2 The financial projections assume the annual external grant target is achieved in order to help fund the Foundation to deliver community benefit activities. The competitive nature of the external funding environment could mean that the Foundation finds it difficult in securing money from external sources although this risk is mitigated by our on-going dialogue with key partners so that we are aware of funding sources that we can apply for funding from.

3.3 A proportion of external grant income is dependent on delivery of outcomes. For 2021/22, there are grant awards that require the Wheatley Foundation to meet outcomes in order to draw down the following:

- Scottish Government partnership grant of £0.25m
- Energy Saving Trust grant of £0.1m

All projects are closely monitored and reported to the Foundation Board on a quarterly basis to ensure delivery against agreed outcomes.

3.4 Selecting and delivering projects which deliver maximum benefit to communities across the Group is one of the main considerations for the Foundation. The formal approvals process put in place should help to ensure that the Foundation Board direct funding to achieve the maximum impact across our communities.

Report

To:	**Wheatley Housing Group Board**
Report by:	**Olga Clayton, Group Director of Housing and Care**
Approved by:	**Martin Armstrong, Group Chief Executive**
Subject:	**Group Delivery Plan 2020/21 Quarter 3 Performance**
Date of Meeting:	**24 February 2021**

1 Purpose

1.1 This report provides an update on progress delivering the targets and strategic projects in the Delivery Plan 2020/21 as of the end of 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 This report sets out progress against the Group's interim delivery plan arrangements for 2020/21.

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". We mitigate this risk by reserving the agreement of individual performance targets and strategic projects to Boards and providing the Board with regular updates in relation to progress against these targets and projects.

4 Background

4.1 We have refined the Group's strategy, which will now cover 2021 to 2026. 2020/21 continues to be an exceptional year due to the pandemic and to reflect this operating context, the Board agreed an interim set of performance measures and targets. This set includes a number of the themes of our original draft 2020-25 strategy, while recognising that normal performance has not been possible due to government restrictions.

4.2 A new performance framework for 2021 to 2026 will be presented to the Board as part of the suite of reports on the new Strategy in April.

4.3 The report outlines performance against the current Group Delivery Plan as of the end of Quarter 3 against the agreed set of interim measures and projects for 2020/21. Please note that there is a progress report on the New Build Programme as a separate agenda item.

4.4 For average days to let, where there was particular impact of the pandemic on operations, we set a series of phased targets that reflected the lifting of lockdown restrictions and a return to business as usual in quarter 4. As a result of the continuing pandemic and lockdown restrictions, we propose carrying forward the targets for phase two of our remobilisation into what would have been a return to business as usual in the last quarter of 2020/21, instead of moving to phase three.

4.5 We also note some amendments to previously reported performance in our 2019/20 Annual Return on the Charter for RSLs. Following final assurance checks, an anomaly was identified in the average factoring management fee which has now been rectified and the revised figured lodged with the Regulator as follows:

RSL	Indicator 28	Original Submission	Revised
Cube	Average management fee per factored property	£184.22	£170.28
DGHP	Average management fee per factored property	£120.15	£96.12
Dunedin Canmore	Average management fee per factored property	£181.42	£185.92
GHA	Average management fee per factored property	£184.53	£171.83
Loretto Housing	Average management fee per factored property	£184.51	£171.69

5 Discussion: Quarter 3 Performance

5.1 This section presents performance and progress delivering performance targets as of 31 December or closest period end.

5.2 The following table presents Group results for the key measures for RSLs. All measures show strong performance despite the exceedingly challenging delivery circumstances during the pandemic.

Indicator	Target	Current Performance Quarter 3	Previous Performance Quarter 2
Gross rent arrears	5.24%	4.72%	4.71%
Tenancy sustainment	90.0%	88.8%	89.4%
Average days to let (Charter lets, with lockdown period removed)	28.0 days	28.2 days	15.7 days
Average emergency repair time	3.00 hours	2.74 hours	2.53 hours

6 Gross Rent Arrears

6.1 The support we provide to our customers has limited the impact of the pandemic on the rate of arrears, which show a very strong position and is more positive than the national trend. Gross rent arrears for the Group are now 4.72%, showing a net increase of 0.08 percentage points in December. We usually record greater arrears at this point of the year, so this performance despite the challenges of the pandemic is notable. We aim to maintain gross rent arrears below 5.24% by the end of the year, which we expect to achieve.

6.2 Our rent performance for all RSLs, with the exception of GHA, was affected by the public holidays over the Christmas period, which meant direct debits, standing orders and DWP payments were all delayed and received after the closure of each RSLs period end. This would have meant a further £200k added to our payments.

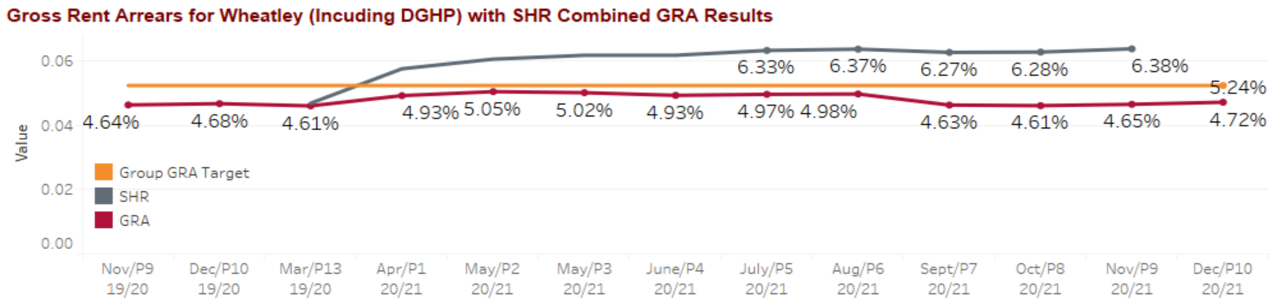
6.3 Despite these delays, four of the six RSLs are currently showing better than targeted performance. We predict that all RSLs will meet their year-end target, with four RSLs expected to outperform targets.

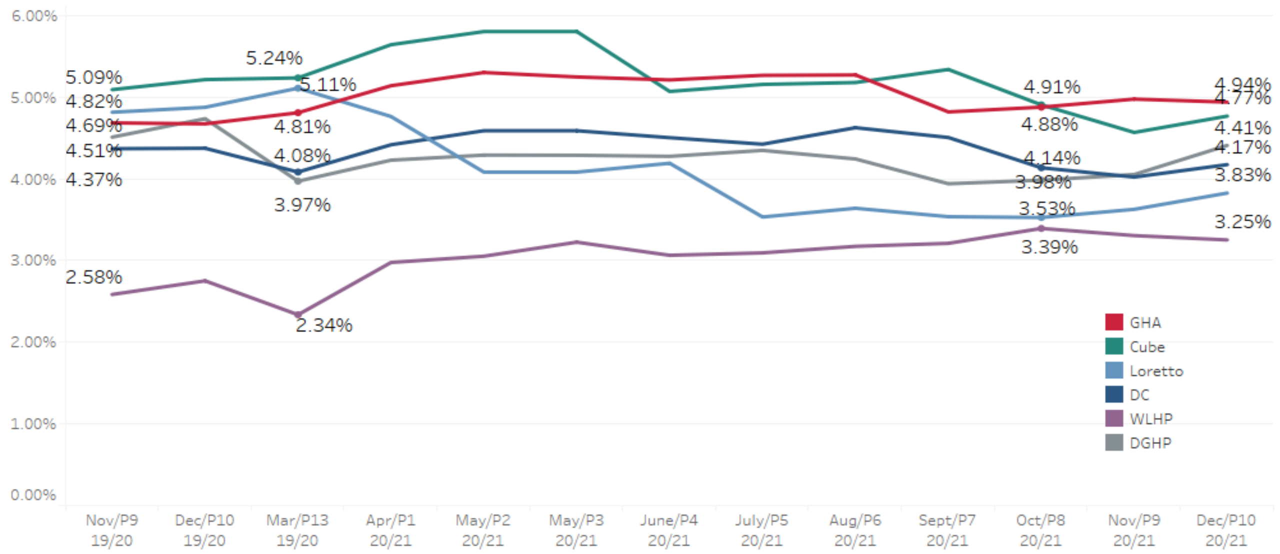
6.4 This good performance is despite the impact of the pandemic on our customers and us still not having the usual tools available in the normal arrears recovery process, including court action. Our strong individual customer relationships have worked well for us in this area. As has the availability of a wide range of wraparound services to support customers to pay their rent and our recent campaigns to promote these services, urging customers to talk to us.

RSL	Current performance and RAG against target	Target	Previous month	SHR average for comparison (30 November)
Cube	4.77%	5.52%	4.57%	4.52%
DC	4.17%	4.51%	4.02%	4.52%
DGHP	4.41%	4.40%	3.98%	8.45%
GHA	4.94%	5.60%	4.98%	8.45%
Loretto	3.83%	4.80%	3.63%	4.52%
WLHP	3.25%	3.10%	3.31%	4.52%
Group	4.72%	5.24%	4.64%	6.38%

6.5 For context (illustrated in the chart on the next page), across Scotland arrears have continued to increase during the pandemic. The Scottish Housing Regulator's most recent published average is to the end of November, with the combined average increasing from 6.28% in October to 6.38%.

6.6 The RSL average improved from 4.53% to 4.52% and the local authority average increased from 8.24% to 8.45%. When the two largest members of Group (DGHP and GHA) are compared against the larger benchmark group of Local Authorities this figure becomes even more favourable as the average is 8.45% for landlords with +10,000 homes.

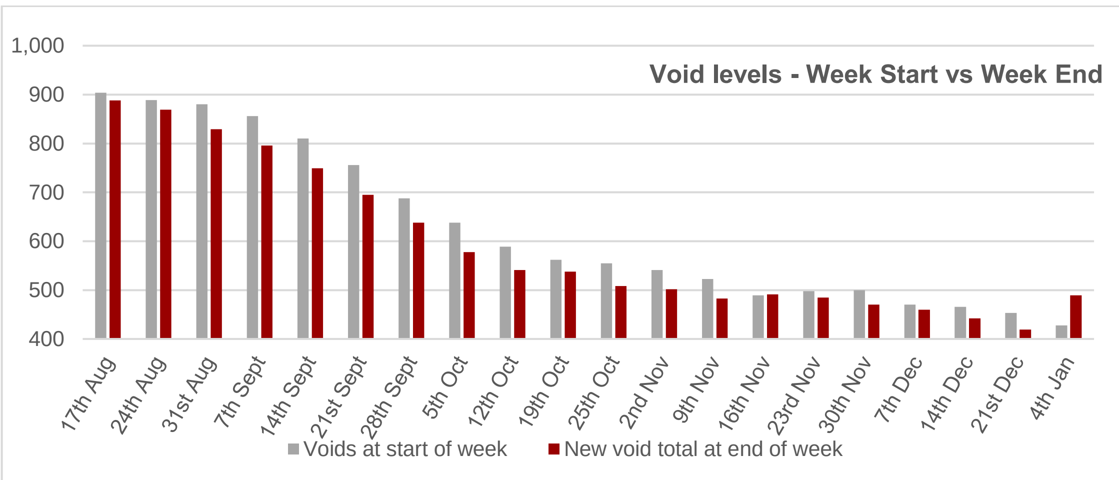




6.7 As reported last quarter, there was an unprecedented level of Universal Credit (“UC”) claims during lockdown. As of the end of December, we currently have 24% (14,659) of Group customers on Universal Credit (UC), which has not changed from the previous month. We expect there to be 28% of customers claiming UC by the end of the financial year.

7 Average Days to Let

7.1 Our focus during remobilisation after the first lockdown was to reduce the backlog of voids that had built up, and this has been successful despite the ongoing restrictions as a result of the pandemic. We have since continued to operate at business as usual levels. The chart below illustrates the reductions in voids from October to December, followed by a slight increase following the Christmas break, as usual and expected.



Classified as Public

7.2 When we consider lets that are included in the Charter indicator for average time to re-let properties (temporary lets and first let new builds are not included) and remove the period of lockdown, the Group average for the year to date is 28.2 days against a target of 28 days. We have seen the increase we expected to see and noted previously. From 15.7 days reported last quarter, we are now reporting an average of 28.2 days as a Group. This increasing time is a result of longer-term voids being returned to the allocation pool from our contractors. These are voids that required major works or investment, such as rot work or replacement kitchens and bathrooms, and were unable to be progressed during the lockdown period.

Average days to re-let (Charter lets, lockdown removed)	**Year to date**	**Remobilisation Phase 2 Targets**
Cube	30.0	28.0
Dunedin Canmore	33.6	27.0
DGHP	21.6	32.0
GHA	30.4	26.0
Loretto	19.1	26.0
WLHP	4.8	26.0
Group	28.2 days	28.0

7.3 The unamended Charter indicator—no lockdown days excluded—shows the impact the coronavirus pandemic and lockdown has had on our letting. This level of performance is in-line with expectations and we anticipate it will reflect the national picture when these statistics become available.

Average days to re-let (Charter indicator)	**Year to date**	**Business as usual targets**
Cube	51.7	16.0
Dunedin Canmore	62.7	15.0
DGHP	42.3	20.0
GHA	44.9	14.0
Loretto	43.6	14.0
WLHP	33.3	14.0
Group	46.2 days	N/A

8 Homelessness

8.1 The Group approach to homelessness letting continues to be at the forefront of remobilisation planning. Achievements to 10 January include:

- 62% homes advertised to Band B, and 53% lets provided to Band B homeless
- 17% new builds are provided to homeless applicants
- We have committed to providing 300 Housing First tenancies by 31 December 2021 (and have created 200 cases so far)
- With 163 live Housing First cases we have an 86% tenancy sustainment rate, which increases to 92% when we take account of negative termination reasons such as abandonments only
- 75% of all Housing First cases in Glasgow and Edinburgh are housed by the Wheatley Group
- 90 temporary lets have been “flipped” to permanent ones; we aim to achieve 150 by March.

8.2 To assist in managing our homelessness work we introduced a new indicator that helps us closely monitor the proportion of relevant lets we provide to homeless applicants. These are lets where we have some control over the outcome. For example, Living Well, mutual exchanges and transfer allocations are excluded. As a Group, we are now exceeding 60% of these relevant lets being made to homeless applicants and have improved since quarter 2. The table below shows the percentage of lets provided this year to homeless households. Dunedin Canmore and GHA show significant increases compared to figures reported last quarter. The in-month figure for December alone was 65%.

8.3 In December, the Board agreed the new policy proposing a target of 65% for Glasgow and 50% for DC and DGHP. We will provide 50% nominations in West Dunbartonshire and West Lothian. These targets will now be discussed with the local authorities and may be subject to revision as local authorities finalise their Rapid Rehousing Transition Plans.

Percentage of relevant lets to homeless applicants	Quarter 2 Year to date performance	Quarter 3 Year to date performance
Cube	67.6%	67.3%
DGHP	66.0%	54.8%
Dunedin Canmore	62.9%	71.4%
GHA	54.8%	61.9%
Loretto	28.6%	50.0%
WLHP	40.0%	63.2%
Group	58.7%*	61.4%

9 Tenancy Sustainment

9.1 The percentage of new tenancies sustained for more than a year has remained slightly below the 90% target this quarter, at 89% as a Group average. WLHP, Dunedin Canmore and Loretto continue to surpass the 90% target with GHA just marginally below at 89%.

9.2 DGHP tenancy sustainment is 85% and is largely affected by tenancies held by previously-homeless customers. Cube tenancy sustainment is 87% is due to the known impact of Wyndford challenges. Analysis shows that when we remove Wyndford, the percentage for Cube increases to 92%.

10 Anti-social Behaviour

10.1 There were 6,102 antisocial behaviour (ASB) cases recorded by our Streetwise system in the year to the end of December, compared to 2,402 in the same time last year. This significant increase (+152%) is due to continued lockdowns. The majority of these complaints are classified as minor and relate to low-level noise and neighbour disturbance. Police Scotland has also noted an increase of 35% cases reported to them in Wheatley estates (excluding DGHP) compared to the corresponding period last year, which again supports the assumption that a significant amount of this increase is attributed to lockdown.

* This Q2 figure was reported as 61.2% in the last performance report to the Board. It has since been amended following further verification of the data as lets finalise, sometimes after the reporting cut-off.

10.2 We have provided advice, guidance and support to more than 3,000 customers throughout the lockdown period and although it was not possible to fully resolve all these cases due to the lockdown restrictions they have now all been revisited by Housing Officers and Antisocial Behaviour Intervention and Prevention Officers and appropriate investigation undertaken.

10.3 We have analysed the Group-wide position (excluding DGHP) of safe, calm and peaceful neighbourhoods to the end of December. In summary, 68% of tenancies and 74% of data zones are classified as peaceful. Improvement requires a reduction in Police-recorded ASB in that data zone. The Group target is 70%.

Percentage of Wheatley Group data zones classified as (year to date average):	**Number**	**Percentage**
Safe	67	7.8%
Calm	148	17.8%
Peaceful	620	74.4%

10.4 At the start of October, the Group deployed the Community Improvement Partnership at the Wyndford, with the objective to turn safe (red) data zones into calm (amber) ones. The following table demonstrates how we have increased the proportion of calm and peaceful (green) data zones as a result of this targeted work over the last 15 weeks.

	Week														
Data zone	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**
S01010358	Amber	Amber	Amber	Amber	Amber	Amber	Red	Red	Red	Red	Red	Red	Red	Red	Amber
S01010359	Red	Red	Amber	Red	Amber	Amber	Red	Amber	Amber	Amber	Green	Green	Green	Green	Amber
S01010360	Red	Red	Red	Amber	Amber	Green	Green	Green	Green	Amber	Amber	Green	Green	Green	Green
S01010361	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Green	Green	Green	Green	Green	Green
S01010362	Amber	Red	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber

11 Accidental Dwelling Fires and Fire Risk Assessments

11.1 There have been 153 accidental dwelling fires (ADFs) in the year to date.[†] Taking into account that we do not yet include DGHP or Dunedin Canmore's figures, this year's performance is 14% less compared to the same time in 2019/20. This reduction is in despite of the spike in ADFs reported last quarter—due to the first lockdown and everyone spending more time at home throughout most of this year. This trend has been reflected nationally by the Scottish Fire and Rescue Service, which has also reported a significant increase in serious injury and death.

11.2 The W360 Fire Safety Team is responsible for undertaking fire risk assessments at 136 multi-storey (MSF) and 42 Livingwell sites. It has been agreed that these will be completed over a three-year time frame, with an annual review also being undertaken on all completed assessments. Due to pandemic restrictions the programme was temporarily suspended. In October 2020, the assessment programme was remobilised.

[†] Comparable SFRS data for the all subsidiaries is not available for 2019/20, but we will report Group-wide as of April 2021.

11.3 To ensure that all sites have an assessment completed within the three-year target timeframe, we have programmed a minimum of 16 assessments per quarter. Between October and December 2020 we completed 17 assessments at MSFs. In quarter four, we will complete a further 12 MSF and 4 Livingwell sites fire risk assessments.

11.4 All our fire risk assessment and subsequent recommendations are recorded on the Group's PIMMS asset management system. To ensure the effective delegation of tasks and responsibilities, separate meetings are held for each of the completed assessments. These meetings are led by the Duty Holder (Locality Directors/Heads of Housing) and also include NETS management, City Building representatives, Fire Safety Officers and Housing Management staff. Our Fire Safety Officers follow the PAS 79 approach to conducting fire risk assessments, which exceeds the current Scottish Government guidance. All actions from the first 16 completed assessments are currently being progressed and we do not envisage any issues with them being resolved within agreed timescales.

Number of recorded accidental dwelling fires	**2019/20**			**2020/21**		
	Q1	**Q2**	**Q3**	**Q1**	**Q2**	**Q3**
Cube	6	2	3	3	3	5
DGHP	N/A	N/A	N/A	N/A	N/A	N/A
Dunedin Canmore	N/A	3	3	5	0	0
GHA	43	59	55	53	39	33
Loretto	2	2	0	7	1	4
WLHP	0	0	0	0	0	0
Total	51	66	61	68	43	42

12 Repairs

12.1 As a Group, we carried out emergency repairs on average within 2.74 hours against the target of 3 hours. Although we reported that all RSLs achieved target last quarter, this quarter there were two RSLs which recorded performance just over the target: Cube and Loretto.

12.2 Analysis of the data by the service suggests this performance may be due to recording of cases when invoices are being processed rather than the work is carried out and also incorrect classifications being used on the handheld devices by new employees. These issues will be reviewed and fixed.

Emergency repairs carried out within targeted time (hours)	**Target**	**Performance**
Cube	3.00	3.18
DGHP	3.00	1.78
Dunedin Canmore	3.00	2.49
GHA	3.00	2.92
Loretto	3.00	3.30
WLHP	3.00	1.89

12.3 Repairs services remobilised fully in November, with some exclusions for safety reasons, for example when multiple trades are in the customer's home with the customer for a prolonged period of time. However, as of 5 January, the service has again been restricted due to the pandemic lockdown.

12.4 A consequence of being unable to provide a full service safely in the first half of the year is that there is backlog of works such as roofing, drainage and customer requests. These will be project managed in a co-ordinated way as we are able to resume services.

13 Gas Safety

13.1 Customer safety has been our primary driver during the pandemic. As a Group we prioritised our landlord responsibility to reduce the backlog of expired gas servicing certificates that arose during the early part of the pandemic. Targeted and focused efforts across the Group reduced the number of expired gas safety certificates that arose during lockdown restrictions (in total 2,149). We reported to the Board last quarter that as of early September, we have been in a 100% compliant position with no further expired gas certificates across all Group subsidiaries. This remains our position despite further lockdowns.

13.2 The Charter indicator shows the number of certificates that have expired at any point during the last 12 months and for this reason all social landlords will report higher than usual figures, due to safety precautions we took for our staff and sensitivity to the concerns of our customers accessing their properties during the lockdown.

14 Customer Service Centre

14.1 Our Customer Service Centre answered an average of 71% of calls within 30 seconds in the year to date, against a target of 75%.

14.2 The percentage of calls presented to the Glasgow Hub and answered within 30 seconds has improved since October. This upward trajectory in performance has been managed despite call volumes increasing during December and restricted staff resources due to Christmas. In December, we answered 68% of calls within 30 seconds, which is an improvement on the 62% reported in November.

14.3 Call times continue to be longer due to the current restrictions. Greater reassurance is required by customers and staff need to carry out some additional steps to safeguard both staff and customers during these times, e.g. logging COVID information and sending SMS or emails to verify details. This longer handling time has an effect of reducing overall capacity to answer calls quickly.

14.4 To cope with in-bound call demand, in November the Glasgow team took on some additional support from across the Group, who have since been trained and are more confident handling customer enquiries. During the last couple of months, we have also taken steps to stabilise resources in DGHP, as they are now aligned and operate alongside the Glasgow Hub. The progress made will have an impact from January as we look to reshape and develop the service to support the new vision.

14.5 We continue to explore new technology which will encourage and empower our customers to self-serve across a range of business areas. These steps will allow us to better manage inbound telephony demand and ensure that our call handlers are available to support those customers who need us the most.

14.6 Year to date, the Glasgow Hub has made over 139k core service outbound calls. Approximately 22k calls were made in December alone. The Glasgow Hub continues to co-ordinate calls to customers to support gas servicing in the East and West subsidiaries. Since the outbound calling was introduced in May 2020, the Glasgow Hub has co-ordinated over 41,000 calls to support our gas servicing compliance. This number is in addition to the figures presented for outbound calling noted above. In December, the Glasgow Hub also used dialler technology to make further rent outbound calls and welfare calls for those customers identified as vulnerable over the Christmas period.

15 Group payments

15.1 At Group level, 95% of invoices have been paid within timescale this year, comparing favourably to last year's figure of 93% but less than our 96% target. All invoices paid late continue to be highlighted through a weekly report to managers.

16 Sickness absence

16.1 We to continue record low levels of sickness absence. In the year to date, the Group lost an average of 2.3% of working time due to staff sickness absence compared to our target of 3%. The rate remains low due to staff continuing to work from home, but the figure has increased from 1.9% reported last quarter as staff returned from furlough and the increasing rates of COVID-19.

16.2 We work with staff to make sure they have the support needed to manage attendance and the stress of current circumstances. The top two reasons for absence across the Group are minor illness (35%) and stress/anxiety (31%). Stress and anxiety as a category has reduced from the 40% reported last quarter.

16.3 The Wellbeing Team is introducing further proactive initiatives designed to support our employees' mental wellbeing in these challenging times. And the Employee Relations Team is continually monitoring all absences where stress or anxiety is the given reason for the absence, and the team provides support for such cases.

16.4 We have conducted follow-up calls with managers to establish the background of these absences and to ensure that all appropriate support has been put in place. Work-related stress cases continue to be managed promptly with Individual Stress Risk Assessments completed at the earliest possible opportunity.

Subsidiary	Percentage of working time lost (YTD)
Cube	0.91%
DGHP	1.53%
Dunedin Canmore	1.16%
GHA	0.89%
Loretto Housing	0.17%
Wheatley 360	1.76%
Wheatley Care	3.75%
Wheatley Solutions	1.33%
WLHP	4.25%
Group year to date average	**2.03%**

17 Jobs, training and apprenticeships

17.1 Due to the pandemic we have had to reduce the level of activity in Wheatley Works, and are not able to report on the number of jobs, training opportunities and apprenticeships created. We have maintained support for customers through our delivery partners. Examples of other work to support our customers during this challenging time are detailed in the paragraphs below.

17.2 After receiving almost 200 online applications from customers across Group, the Foundation made provision for an extra 30 new Bursary awards, bringing the total number up to 80 this year. Thanks to this financial support, 77 tenants are now going on to train in professions as diverse as teaching, social care and physiotherapy.

17.3 The Foundation distributed the Group’s Christmas Vouchers Scheme, which supported families with a £30 supermarket voucher for each child in the household. Parents/carers of almost 15,8k children across Group received Tesco, Asda or Sainsbury’s Vouchers to help with Christmas purchases. The Foundation and Universal Credit teams worked together throughout December to send the vouchers via text and email, so families could buy presents and food over the festive period.

17.4 Eat Well has supported 7.5k households with food deliveries and 2.2k households with supermarket vouchers, helping our customers who continue to be affected by furlough and reduced income during the pandemic.

17.5 The Foundations’ Emergency Response Fund has continued to respond to high demand for support for vulnerable households. This quarter saw an increase in requests for higher value items such as white goods and furniture, and B&Q vouchers to support customers moving into new properties. The Emergency Response Fund has supported 6,235 households to date this year. We have issued vouchers where possible, to speed up the process and give the customer more choice.

17.6 My Great Start has supported 1.2k people to date this year with crucial financial and money advice, helping to secure £627k of financial gain for customers.

17.7 The Dolly Parton Imagination Library has delivered 4.4k books to 540 children under five, continuing to support early-years literacy and children’s introduction to books.

17.8 The Children’s University Scotland is supporting 5.2k children throughout Scotland to access to wider learning activities. Importantly during this time, they continue to support schools with their home learning resources and play activities.

18 Wheatley Care

18.1 Wheatley Care continues to respond strongly to the challenges of the last year. To prepare for further lockdowns and rising cases of COVID-19, we implemented a winter response plan, including arrangements for enhanced testing and the roll out of vaccinations.

18.2 The year to date surplus for Wheatley Care is £103k against a targeted £186k. Factoring in two unbudgeted one-off payments to staff of £204k would leave surplus of £307k.

18.3 We have supported 5,303 individuals this year to date, compared to 4,304 individuals reported last quarter, including 353 new referrals in December. There have been no COVID-related deaths in our residential care services and no further deaths following the three recorded deaths of tenants within LivingWell in the spring who did not receive direct care from us. There were 18 unplanned move-ons reported to December, which is very low even compared to our historically strong performance.

18.4 Wheatley Care has 24 registered services, three of which do not have a live inspection by the Care Inspectorate. The Care Inspectorate has not carried out any new inspections this year to date due to the pandemic and there are no current plans to, so we are not tracking this measure against target for 2020/21. However, the majority of our services (67%) remain graded 5 or better. Across the sector, the average is 60% of services, so our performance is good.

18.5 The staff retention stability rate stands at 87%, well above the Scottish Social Services Council ("SSSC") workforce stability index average of 77%. All staff continue to be compliant with SSSC qualification requirements; 100% of staff are registered with the appropriate body within the first six months of starting a post. Sickness absence is 3.8% against the target of 5%. This is a significant improvement on last year's figure of 5.3%, especially given the challenging time the moment for staff working in front-line provision.

19 Commercial

19.1 [redacted]

20 Partner dashboard summaries

20.1 As discussed in the preceding sections, we have operated throughout an unprecedented set of challenges posed by the pandemic whilst maintaining strong performance against most targets. The table below gives a summary of each partner's progress towards the dashboard measures (presented in full in appendix 2).

20.2 The position for expired gas services for all RSLs will remain as the figures reported last quarter and will be assessed as red until the 12 month rolling period renews again; we have not explained this position for each RSL in the table below. All partners are now in a 100% compliant position and have remained so since September.

GHA	GHA is meeting target for 6 of 10 key indicators including complaint timescales, repair timescales and satisfaction, gross rent arrears, new build completions and sickness absence. Tenancy sustainment is just marginally below 90% target at 89.3%, equating to only 18 our 3,466 tenancies below target. Days to let is currently 30.4 days against a target of 26.0 days. Social housing completions are below target.
Cube	Cube is meeting target for 5 of the 9 indicators on the dashboard including complaints timescales, gross rent arrears, new build completions and sickness absence. Three indicators are amber: emergency repair timescales, tenancy sustainment and average days to let.
Loretto	Loretto is meeting target for 6 out of 8 measures within the dashboard, with the exception of gas safety checks and emergency repair timescales.

	Emergency repairs were carried out in just above the timescale, but we believe this is due to operatives not entering actual dates of the work into their handheld devices.
Dunedin Canmore	Dunedin Canmore is meeting target for 8 out of 10 measures within the dashboard, with the exception of gas safety checks met and days to let, which has 33.6 days against a target of 26.0. In contrast to Glasgow and Dumfries & Galloway, Edinburgh Council did not want void properties transferred directly to them for temporary accommodation. The Council request was to work with them to house urgent homeless and Housing First cases into permanent accommodation where possible. This also meant the responsibility to bring properties to a lettable standard remained with DC and therefore the impact of the restrictions on increased void turnarounds is reflected fully in DC's figures.
WLHP	West Lothian is meeting target for 6 out of 9 indicators. Gas safety checks and sickness absence are red. Gross rent arrears are just slightly above target and amber. Arrears have reduced for the last two periods and we expect to meet the end of year target. The value of WLHP arrears levels increased as expected with the transfer of Barony stock. WLHP sickness levels are impacted due to the small number of employees within the subsidiary.
DGHP	DGHP is meeting target for 5 of the 8 key measures on the dashboard including complaints, repair timescales and satisfaction, letting times, and sickness levels. Tenancy sustainment at 85.3% is affected by lower sustainment by younger males. Wraparound services will provide targeted support which should improve this position.
Wheatley Care	Wheatley Care is meeting all targeted measures within the dashboard.

21 Strategic project delivery

21.1 Appendix 2 presents progress towards each of the strategic projects in the revised delivery plan for 2020/21. Out of the 24 projects, 21 are on track or complete. Two show some slippage against milestones and one is overdue.

21.2 Four projects are now complete:

- Ignite programme 2020
- develop a Group Homelessness Framework, including rapid rehousing
- complete implementation plan for migration of YP's business to Lowther Homes
- agree the MyRepairs technology strategy.

21.3 The three projects that are overdue or show signs of slipping against milestones as of February are detailed in the following table, along with a note of progress.

Overdue	Update Provided
1 Develop pre-1919 strategic overview	Project plan now to be presented to the Executive Team, date to be confirmed.
Slippage	**Update Provided**
2 Establish DGHP in-	The repairs service was brought in house in April 2020. This project sets milestones to embed Group policies and services into operational delivery. The element delayed is creating a performance

	house repairs service	framework for repairs reporting. Work has started to produce real time performance dashboards for finance and performance reporting. This is being developed and will go via Group for consistency and is likely to be completed in February. In the interim we have current KPIs and finance monitoring in place.
3	Increase Lowther capital	All Board approvals are now in place for £15m capital increase and legal documentation will be concluded once HMRC confirmation on ‘qualifying status’ for charitable loan is received.

21.4 A further project, working with Police Scotland to develop a Group-wide Antisocial Behaviour and Crime Prevention and Mitigation Framework, was reported as slipping against milestones to earlier subsidiary boards so we have included here. However, it has now returned to schedule and is 80% complete. This project is now due to complete when presented to Board in April.

22 Key issues and conclusions

22.1 This report outlines relatively strong progress in achieving the majority of performance targets and the delivery of projects, despite the continuing challenges posed by the pandemic and lockdown restrictions that continue to affect business delivery. Key areas of focus during the remainder of the year will be the continued support of customers who may be experiencing additional financial hardship and to manage our arrears, continued focus on letting properties and supporting our contribution to reducing homelessness, and delivery of safe and high quality repairs and care services to customers.

23 Financial and value for money implications

23.1 The measures and projects included in this report were agreed as the delivery plan for 2020/21. These items are intended to focus service improvement on the key priorities within the Strategy to make sure that financial and other resources are aligned with our priorities.

23.2 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.

24 Legal, regulatory and charitable implications

24.1 The SHR requires an Annual Return on the Charter from each RSL. Key indicators within this return are included in monthly performance reporting. RSL Subsidiary Boards approve the final return and the information is included in the year end performance report to the Board. RSLs are also required to involve tenants in the scrutiny of performance, which the Group does through its Tenant Scrutiny Panel, and to report to tenants annually by December 2020 (usually October, delayed due to the coronavirus pandemic).

25 Equality implications

25.1 There are no proposals relating to our duties under equality legislation or that have an adverse impact on equality.

26 Recommendations

26.1 The Board is asked to note the contents of this report.

LIST OF APPENDICES

Appendix 1: Measures dashboard

Appendix 2: Strategic projects dashboard

Appendix 1: Wheatley Housing Group Board - Delivery Plan 2020/21 - Strategic Measures

1. Group Measures

	2019/20	YTD 2020/21		
Measure	2019	2020		
	Value	Value	Target	Status
Group - Gross Rent Arrears	4.61%	4.72%	5.24%	
Group - Tenancy Sustainment	89.8%	88.8%	90.0%	
Group - Average time to complete emergency repairs - make safe (hours)	2.71	2.74	3	
Group - Average days to let (ARC) – excluding lockdown days	N/A	28.2	28.0	
Group - % calls answered <30 seconds (Grade of Service)	63.7%	70.1%	75.0%	
Group - % avoidable contact	8.5%	8.6%	17.0%	
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)	92.8%	94.6%	96.0%	
Group - Total number of jobs, training places or apprenticeships created including Wheatley Pledge	900	0	0	N/A
Group - Sickness Rate	3.47%	2.03%	3.00%	

2. GHA

Measure	2019/20	YTD 2020/21		
	2019	2020		
	Value	Value	Target	Status
Average time for full response to all complaints (working days) - overall	4.94	5.49	8.00	
Average time taken to complete emergency repairs (hours) – make safe	2.88	2.92	3.00	
Number of gas safety checks not met	0	1,536	0	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service	94.3%	92.9%	87.0%	
% new tenancies sustained for more than a year - overall	90.4%	89.3%	90.0%	
Average days to let (ARC) – excluding lockdown days	N/A	30.4	26.0	
Average time to re-let properties (ARC)	15.4	44.9	N/A	
Gross rent arrears (all tenants) as a % of rent due	4.81%	4.94%	5.6%	
New build completions - Social Housing	59	185	269	
New build completions - Mid-market	119	49	0	
% Sickness rate	3.03%	0.89%	3%	

3. Cube

Measure	2019/20	YTD 2020/21		
	2019	2020		
	Value	Value	Target	Status
Average time for full response to all complaints (working days) - overall	4.55	5.49	8.00	
Average time taken to complete emergency repairs (hours) – make safe	2.95	3.18	3.00	
Number of gas safety checks not met	0	71	0	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service	94.6%	92.7%	87.00%	
% new tenancies sustained for more than a year - overall	88.0%	86.2%	90.0%	
Average days to let (ARC) – excluding lockdown days	N/A	30	28	
Average time to re-let properties (ARC)	17.3	51.7	N/A	
Gross rent arrears (all tenants) as a % of rent due ((Excludes Homelink)	5.24%	4.77%	5.52%	
New build completions - Social Housing	109	24	24	
% Sickness rate	1.28%	0.91%	3.00%	

4. Loretto Housing

Measure	2019/20	YTD 2020/21		
	2019	2020		
	Value	Value	Target	Status
Average time for full response to all complaints (working days) - overall	4.22	5.03	8.00	
Average time taken to complete emergency repairs (hours) – make safe	3.02	3.30	3.00	
Number of gas safety checks not met	1	114	0	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service	93.1%	97.1%	87.0%	
% new tenancies sustained for more than a year - overall	90.6%	90.3%	90.0%	
Average days to let (ARC) – excluding lockdown days	N/A	19.1	26.0	
Average time to re-let properties (ARC)	14.3	43.6	N/A	
Gross rent arrears (all tenants) as a % of rent due	5.11%	3.83%	4.80%	
Sickness Rate	5.53%	0.17%	3.00%	

5. Dunedin Canmore

Measure	2019/20	YTD 2020/21		
	2019	2020		
	Value	Value	Target	Status
Average time for full response to all complaints (working days) - overall	4.56	4.64	8	
Average time taken to complete emergency repairs (hours) – make safe	1.76	2.49	3.00	
Number of gas safety checks not met	0	122	0	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service	94.6%	90.8%	87.0%	
% new tenancies sustained for more than a year - overall	93.8%	93.4%	90.0%	
Average days to let (ARC) – excluding lockdown days	N/A	33.6	27.0	
Average time to re-let properties (ARC)	9.7	62.7	N/A	
Gross rent arrears (all tenants) as a % of rent due	4.08%	4.17%	4.51%	
New build completions - Social Housing	84	48	48	
New build completions - Mid-market	78	35	35	
Sickness Rate	2.85%	1.16%	3.00%	

6. WLHP

Measure	2019/20	YTD 2020/21		
	2019	2020		
	Value	Value	Target	Status
Average time for full response to all complaints (working days) - overall	4.45	2.71	8	
Average time taken to complete emergency repairs (hours) – make safe	1.90	1.89	3.00	
Number of gas safety checks not met	0	8	0	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service	94.2%	90.9%	87.0%	
% new tenancies sustained for more than a year - overall	98.4%	93.9%	90.0%	
Average days to let (ARC) – excluding lockdown days		4.8	26.0	
Average time to re-let properties	1.5	33.3	N/A	
Gross rent arrears (all tenants) as a % of rent due	2.34%	3.25%	3.10%	
New build completions - Social Housing	83	8	8	
% sickness rate	0.27%	4.52%	3.00%	

7. DGHP

Measure	2019/20	YTD 2020/21		
	2019	2020		
	Value	Value	Target	Status
Average time for full response to all complaints (working days) - overall	4.35	4.59	8	
Average time taken to complete emergency repairs (hours) – make safe	2.27	1.78	3.00	
Number of gas safety checks not met	0	298	0	
% of tenants who have had repairs or maintenance carried out in last 12 months satisfied with the R&M service	92.4%	98.4%	87.0%	
% new tenancies sustained for more than a year - overall	85.8%	85.3%	90.0%	
Average days to let (ARC) – excluding lockdown days	N/A	21.6	32.0	
Average time to re-let properties (ARC)	28.2	42.3	N/A	
Gross rent arrears (all tenants) as a % of rent due	3.97%	4.41%	4.40%	
% Sickness rate	4.74%	1.53%	3.00%	

8. Wheatley Care

Measure	2019/20	YTD 2020/21		
	2019	2020		
	Value	Value	Target	Status
Number of people we work for with unplanned move on	N/A	18	70	
% Care services graded very good (5) or better in Care inspections	N/A	66.67%	N/A	
Number of Care inspection requirements received in year	N/A	0	0	
% complaints to Care Inspectorate upheld	N/A	0%	0%	
% complaints responded to within SPSO timescales by Wheatley Care	N/A	100%	96%	
% staff registered with appropriate body within first 6 months of starting post if register open	N/A	100%	100%	
% sickness rate	N/A	3.75%	5.00%	
Number of accidents and incidents reported to the Care Inspectorate	N/A	486	N/A	

9. Lowther Letting

[redacted]

10. Lowther Factoring

[redacted]

11. Commercial Properties

[redacted]

Appendix 2 - Wheatley Group Board - Delivery Plan 20/21 - Strategic Projects

Strategic Project	Delivery Date	Status	% Progress
Ignite programme 2020	31-Oct-2020		100%
Develop Group Homelessness Framework, including rapid rehousing	31-Dec-2020		100%
Complete implementation plan for migration of YP's business to Lowther Homes	31-Dec-2020		100%
Develop pre-1919 strategic overview	31-Dec-2020		90%
Socio-economic research study linked to cost of a home	31-Jan-2021		70%
Work with Police Scotland to develop a Group-wide Antisocial Behaviour and Crime Prevention and Mitigation Framework	28-Feb-2021		80%
[redacted]	28-Feb-2021		50%
Reshape the homelessness commissioning approach through alliancing in Glasgow and influencing approaches nationally	28-Feb-2021		65%
Review of Wheatley Foundation purpose and future focus	31-Mar-2021		30%
Develop a new framework for customer engagement (incorporating customer inspection process)	31-Mar-2021		70%
Establish DGHP in-house repairs service	31-Mar-2021		35%
Agree the MyRepairs technology strategy	31-Mar-2021		100%
Year 1 DGHP integration and transformation	31-Mar-2021		70%
New staff operating model	31-Mar-2021		75%

Strategic Project	Delivery Date	Status	% Progress
Agree & Implement a Digital Learning Framework/ Approach	31-Mar-2021		80%
Increase Lowther capital	31-Mar-2021		35%
Strategic review of Cube completed and findings implemented	31-Mar-2021		75%
Agree and introduce digital maturity assessments across key services and projects	31-Mar-2021		50%
Carry out Corporate Estate review in line with proposed new 'blended approach' service model and devise programme of estate rationalisation	31-Mar-2021		70%
Implementation of strategy to meet "no home unimproved" by 2020	31-Mar-2021		40%
Agree the Wyndford strategic road map	31-Mar-2021		80%
Establish first TRA in Dumfries	31-Mar-2021		30%
Implement One Care Company culture change programme	31-Mar-2021		20%
Commercial Properties Review	31-Mar-2021		80%

Wheatley Group

Report

To: Wheatley Housing Group Board

By: Steven Henderson, Group Director of Finance

Approved by: Martin Armstrong, Group Chief Executive

Subject: Finance report

Date of Meeting: 24 February 2021

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1. Purpose

1.1 The purpose of this paper is to provide an update on the Group's financial performance for the period to 31 December 2020.

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 2020/21 budget effectively mirrors the first year of the business plan financial projections for each entity 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 2020

4.1 The results for the period to 31 December are summarised below:

	Year to Date (Period 9)		
£m	**Actual**	**Budget**	**Variance**
Turnover	281.0	286.5	(5.5)
Operating expenditure	(202.7)	(225.5)	22.8
Operating surplus	**78.2**	**61.0**	**17.2**
Operating margin	*27.8%*	*21.3%*	
Net interest payable	(53.1)	(56.4)	3.3
Surplus	**25.1**	**4.6**	**20.5**
Net Capital Expenditure	(53.8)	(114.2)	60.4

5. Key issues and conclusions

5.1 The Group is reporting a statutory surplus for the nine months to December 2020 of £25.1m, £20.5m higher than budget for the year. The favourable variance is driven by the changes to our operating model implemented in response to the Covid-19 pandemic, based on Scottish Government restrictions.

Key variances against budget include:

- Grant income is £2.9m lower than budget due to the suspension of work on new build developments in Q1 and the resulting delay to completions. Sites started to reopen from July, allowing units delayed from March to be completed. This has also had an impact on net rental income in the RSLs and Lowther, which is £2.1m lower with new build social and mid-market properties starting to be available to let from early August. A number of properties have also been provided to local authorities to provide temporary homeless accommodation to assist in the utilisation of voids across the group.

- Other income is £0.5m adverse to budget; this is principally due to lower service charge income recorded in YourPlace with charges for services disrupted by the Covid-19 outbreak being credited to customer accounts and lower levels of Wheatley Care contract income. In Wheatley Care contract costs are being managed to help manage the financial impact.

- In expenditure, staff costs are £5.2m lower. A number of staff members have taken up ER/VR in the period to date as part of the plan agreed by the Board in September.

- Running costs are reporting a favourable variance against budget of £3.6m with lower levels of spend across the majority of subsidiaries as a result of the changes to our operations with a number of staff working at home and lower levels of expenditure on office running and staff related expenditure. In YourPlace lower levels of factoring income is linked to lower costs of sale reported through this line.

- Repairs and maintenance costs are £13.2m lower for the nine months to December 2020. The service has been subject to a number of changes through the year in response to the Scottish Government guidelines in place at the time and enhanced health and safety requirements.

- Interest and financing costs are £3.3m lower, linked to a lower level of net debt than expected due to the reduced levels of activity in our capital and new build programme.

5.2 Net capital expenditure is £60.3m lower than budget. Within this new build spend is £47.3m lower. Spend reported of £41.6m reflects the ongoing levels of activity across the re-opened sites.

- The core investment programme on existing stock is £36.2m lower than budget due to the completion of essential investment works only such as boiler replacements, major roofing repairs and cladding works.

- The other fixed assets line includes spend on the new repairs system initially being deployed at DGHP, the ASTRA customer relationship management system upgrade and mobile equipment provided to staff for home working.

Q3 Forecast

	Q3 Forecast		
£m	**Budget**	**Forecast**	**Variance**
Turnover	391.3	373.4	(17.9)
Operating expenditure	(295.1)	(277.9)	17.2
Operating surplus	**96.2**	**95.5**	**(0.7)**
Operating margin	*24.6%*	*25.6%*	
Gain on sale	1.1	-	(1.1)
Net interest payable	(73.2)	(68.9)	4.3
Statutory surplus	**24.1**	**26.6**	**2.5**
Net Capital Expenditure	148.9	74.7	74.2

5.3 The full year forecast for the group statutory surplus is £26.6m, £2.5m higher than budgeted. As seen in the year to date performance, the majority of income and expenditure lines are reporting variances to budget owing to the changes in the operation of the business during the Covid-19 outbreak. The forecast also includes a provision for a higher level of ER/VR through the accelerated implementation of the revised operating model.

Key variances against budget include:

- Within turnover, grant income is expected to be £13.9m lower than budget. The forecast includes the impact of the grant recognised on the delayed 2019/20 handovers across the borrower group sites which had been delayed following the closure of construction sites in March 2020. This links through to a reduction of £3.2m in net rental income which has been impacted by the later completions of planned new build homes. Higher levels of voids are also a factor with normal letting activities being affected by the pandemic.

- Total expenditure is expected to be £17.2m lower than budget. This includes savings from staff members taking up ER/VR. An additional provision for ER/VR of £10.8m is included in the updated financial projections to accelerate changes to the operating model which will be achieved through the greater use of digital technology and mobile working.

- Running costs, are expected to be £3.3m lower than budget, reflecting savings made in the year to date, continuation of home working for a number of employees and includes an additional provision for unbudgeted PPE costs in the remaining months of the year.

- A reduction in repairs costs of £15.2m is expected for the full year. Repairs services in the fourth quarter are operating under the “safety first “model which is expected to continue through to the end of the financial year.

- A favourable variance in bad debts costs of £1.6m has been included in the forecast, reflecting the favourable position in bad debts compared to budget, which was set at a prudent level and provided for an increase in arrears levels as more tenants move onto Universal Credit.

5.4 Net capital investment is expected to be £74.2m lower than budgeted with a reduction in grant income claimed of £21.3m in the year. The core investment programme is expected to be £40.2m lower, with works focussed on external investment and compliance works as well as urgent projects such as boiler replacements. The impact of site closures earlier in the year and the phased restart of work results in new build development spend being forecast at £53.7m lower than budget, deferring cost into 2021/22.

6. Key issues and conclusions

6.1 All loan covenants with respect to the RSL Borrower Group, WFL2 and DGHP were met as at 31 December 2020.

6.2 The one-off/unanticipated spending delays compared to budget has improved the covenant position at 31 December 2020. More detail is provided in the Treasury update.

7. Value for Money implications

7.1 Delivery of our cost efficiency targets is a key element of continuing to demonstrate value for money. The underlying results for the period to 31 December 2020 were favourable to budget ensuring that these efficiency targets are met.

8. Impact on financial projections

8.1 The results for the period to date have a positive impact, generating a surplus of favourable to budget. The covenant measures report a stronger financial positon compared to the projections.

9. Legal, regulatory and charitable implications

9.1 No implications.

10. Equalities impact

10.1 Not applicable.

11. Recommendation

11.1 The Board is requested to note the financial performance for the Group to 31 December 2020.

Appendices

Appendix 1: Wheatley Group Financial Report to 31 December 2020

Appendix 1: Wheatley Group Financial Report To 31 December 2020 (Period 9)

•Classified as Internal

1a) Wheatley Group – Year to date

YTD (£k)	Year to 31 December 2020			Full Year Budget £'000
	Actual £'000	Budget £'000	Variance £'000	
INCOME				
Net Rental Income	225,461	227,541	(2,080)	302,539
Grant income	23,744	26,644	(2,900)	46,792
Other Income	31,774	32,294	(520)	41,928
Total Income	**280,979**	**286,479**	**(5,500)**	**391,258**
EXPENDITURE				
Employee Costs	61,745	66,902	5,157	88,656
ER/VR	2,344	1,055	(1,289)	1,209
Running Costs	33,619	37,213	3,594	46,856
Repairs & Maintenance	28,352	41,526	13,174	51,863
Irrecoverable VAT & bad debts	7,833	9,452	1,619	12,600
Depreciation	68,667	68,675	8	92,932
Demolition Programme	182	697	515	930
Total Expenditure	**202,741**	**225,519**	**22,778**	**295,044**
NET OPERATING SURPLUS	**78,238**	**60,960**	**17,278**	**96,214**
	27.8%	21.3%		24.6%
Gain/(loss) on sale of fixed assets	4	9	(5)	1,060
Net interest payable	(53,101)	(56,375)	3,274	(73,194)
STATUTORY SURPLUS/(DEFICIT)	**25,141**	**4,594**	**20,547**	**24,080**

INVESTMENT				
Total Capital Investment Income	20,473	45,082	(24,609)	63,626
Core Investment Programme	29,888	66,114	36,226	84,591
New Build Programme	41,597	88,894	47,297	121,875
Other fixed assets	2,804	4,230	1,426	6,060
Total Capital Investment Expenditure	**74,289**	**159,238**	**84,949**	**212,527**
NET CAPITAL INVESTMENT SPEND	**(53,816)**	**(114,156)**	**60,340**	**(148,901)**

Key highlights year to date:

The Group operating surplus for the 9 months ended 31 December was £78.2m which is £17.3m favourable to budget. At the statutory surplus level, a surplus of £25.1m is reported showing a favourable variance of £20.5m to budget. The majority of variance in both income and expenditure lines are a result of the changes in the operation of the business during the Covid-19 outbreak.

Total income at £281.0m is £5.5m lower than budgeted:

- Net rental income is £2.1m unfavourable to budget and includes the impact of delays in new build completions within GHA, Cube, Dunedin, West Lothian Housing Partnership and Lowther delayed from March when work was suspended, as well as higher void levels although across the Group including in Lowther, a number of properties in the RSLs continue to be provided to local authorities for temporary homeless accommodation.
- Grant income has been recognised for new build completions across the RSLs; a result of the phased reopening of sites in the second quarter. To date, income has been recognised for the completion of 349 units.
- Other income is £0.5m lower than budget at December 2020, largely driven by lower levels of income from owners for factoring services, and a reduction in service charge income for staircleaning and ground maintenance services to both tenants and owners. These items are offset by lower costs for the service delivery and the furlough of staff delivering the services where appropriate.

Total expenditure of £202.7m is £22.8m favourable to budget:

- Employee costs are £5.2m favourable to budget. Savings are also reported in Care driven by the lower number of SDS hours required. In addition, the approval of the earlier implementation of the new operating model is linked to a higher number of staffing taking up ERVR to date delivering revenue savings when compared to the budgeted structure with ERVR costs £1.3m higher than budget.
- Running costs are £3.6m favourable to budget with the variance largely linked to the change in the operation of the business through the year to date. Included are running cost savings across a number of categories in the RSLs, care contract running costs linked to lower SDS hours and lower billed factoring service costs. Running cost reductions have created provision for unbudgeted spend on PPE for staff across the Group.
- Revenue repairs and maintenance expenditure is £13.2m favourable to budget. The service model has been subject to a number of changes during the year as the Covid-19 restrictions have varied. Continuing reductions are reported across most areas of repairs.
- Irrecoverable vat and bad debts are £1.6m favourable to budget across the Group, driven by the prudent universal credit provisions in the budget and also reflecting the ongoing work across the group to focus on addressing the level of tenant arrears.
- Net capital expenditure is £60.3m lower than budget. Variances across core investment and new build are also driven by pandemic related restrictions. Works ongoing in both core investment and new build are subject to pre work screening and enhanced health and safety measures.
- Core programme spend is lower than budget by £36.2m, with spend including essential works on boilers, voids, major roofing works and cladding work.
- New Build spend of £29.9m includes work at Queens Quay (Cube), Almondvale (WLHP), South Gilmerton (DC), GHA sites at Baillieston, Sighthill, Scaraway, Kennishead, Auchinlea, Bellrock, Watson and Linkwood and in DGHP the Monreith, Nursery Avenue and Lincluden.
- Other fixed assets are £1.4m favourable to budget, with work on the DGHP integration falling into 2021/22.

Wheatley Group Financial Report
To 31 December 2020 (Period 9)

RSL Borrower Group

2a) RSL Borrower Group – Year to date

YTD (£k)	RSL BORROWER GROUP Year to 31 December 2020 ACT £'000	BUD £'000	VAR £'000	Full Year Budget £'000
INCOME				
Net Rental Income	181,195	182,502	(1,307)	242,714
Grant income	23,744	26,644	(2,900)	45,733
Other Income	8,002	7,954	48	12,442
Total Income	**212,941**	**217,100**	**(4,159)**	**300,888**
EXPENDITURE				
Employee Costs	41,156	44,660	3,504	60,689
ER/VR	1,210	579	(631)	773
Running Costs	17,607	20,186	2,579	26,453
Repairs & Maintenance	20,744	29,881	9,137	36,929
Irrecoverable VAT & bad debts	7,282	8,601	1,319	11,465
Depreciation	61,600	61,614	14	82,184
Demolition Programme	182	697	515	930
Total Expenditure	**149,781**	**166,218**	**16,437**	**219,422**
NET OPERATING SURPLUS	**63,160**	**50,882**	**12,278**	**81,467**
	29.7%	23.4%		27.1%
Gain/(loss) on sale of fixed assets	1	9	(8)	13
Net interest payable	(46,234)	(49,582)	3,348	(64,088)
STATUTORY SURPLUS/(DEFICIT)	**16,927**	**1,309**	**15,618**	**17,392**

INVESTMENT				
Total Capital Investment Income	19,365	42,495	(23,130)	60,210
Core Investment Programme	23,167	45,443	22,276	59,486
New Build Programme	36,392	79,101	42,709	108,819
Other fixed assets	2,584	2,980	396	4,515
Total Capital Investment Expenditure	62,143	127,524	65,381	172,820
NET CAPITAL INVESTMENT SPEND	**(42,778)**	**(85,029)**	**42,251**	**(112,610)**

Key highlights year to date:

The RSL Borrower group operating surplus to 31 December is £63.2m, £12.3m favourable to budget. At the statutory surplus level, a surplus of £16.9m is reported showing a favourable variance of £15.6m compared to the budget. The majority of variances in income and expenditure lines are due to the changes in the operation of the business during the pandemic.

Total income is £4.2m lower than budgeted:

- Net rental income is £1.3m unfavourable to budget across the RSLs. Rental income includes the impact of delays in new build completions within the Borrower Group (£0.7m), and a higher level of voids (£0.6m) with GHA, Loretto and Dunedin Canmore reporting voids higher than budget.
- Grant income has been recognised to date primarily for new build properties where completion had been delayed in March 2020. Income has been recognised for the completion of 349 units.
    - GHA – 234 units at Inglefield, Linkwood, Bellrock, Auchinlea, Inglefield and Scaraway
    - Cube – 24 units for Westcliff, WLHP – 8 units at Dixon Terrace
    - DC – 83 units at Bearverbank, Lang Loan, Morrison Street and Greendykes.

Total expenditure is £16.4m favourable to budget:

- Staff costs are £3.5m lower than budget and include savings from a number of leavers linked to the earlier implementation of the new operating model which in turn has pushed ER/VR costs £0.6m higher than budget
- Total running costs are £2.6m favourable to budget with lower than expected costs in a number of areas such as office running costs, staff related expenditure, training and travel. The year to date spend includes additional costs for PPE provided to staff.
- Revenue repairs and maintenance expenditure is £9.1m favourable to budget. The service model has been subject to a number of changes during the year as the Covid-19 restrictions have varied. Ongoing reductions are reported across most areas of repairs. Costs incurred continue to be across responsive repairs, emergency and servicing costs.
- Bad debts are £1.3m favourable to budget, with additional provision made in the budget for tenants moving over to Universal Credit. Costs also reflect the ongoing work across the group to manage the level of tenant arrears.
- Interest costs are £3.3m lower than budget driven by the lower levels of revenue and capital expenditure with planned funding drawdowns not required.

Net capital expenditure is £42.3m lower than budget. Lower levels of capital expenditure have been driven by the postponement of investment work at different points during the year in response to the level and nature of the restrictions during the year. Work undertaken in core investment and new build is subject to the use of appropriate pre work screening and enhanced health and safety measures.

- Core programme spend of £23.2m covers costs incurred amongst others for compliance work, lift renewal, kitchens and bathrooms, central heating in addition to voids work, capitalised repairs. Whilst works have progressed well in December, the spend in the month is £0.9m lower than budget, the lowest monthly variance this financial year.
- New build spend of £36.4m includes ongoing work at Queens Quay (Cube), Almondvale (WLHP), South Gilmerton (DC) and GHA sites at Baillieston, Sighthill, Scaraway, Kennishead, Auchinlea, Bellrock, Watson and Linkwood.

2b) GHA – year to date

	Year To 31 December 2020 Actual £k	Budget £k	Variance £k	Full Year Budget £k
INCOME				
Rental Income	137,759	138,296	(537)	183,732
Void Losses	(1,550)	(960)	(590)	(1,275)
Net Rental Income	**136,209**	**137,336**	(1,127)	**182,457**
Other Income	6,544	6,287	257	8,648
Grant Income	15,520	26,486	(10,966)	34,259
Total Income	**158,273**	**170,109**	**(11,836)**	**225,364**
EXPENDITURE				
Employee costs	31,756	34,920	3,164	46,149
ER / VR	569	579	10	773
Running costs	12,513	14,322	1,810	18,919
Revenue Repairs and Maintenance	15,130	22,593	7,464	27,511
Irrecoverable VAT and bad debts	6,903	7,771	868	10,362
Depreciation	46,224	46,224	0	61,632
Demolition and Tenants Compensation	182	697	515	930
TOTAL EXPENDITURE	**113,275**	**127,107**	**13,832**	**166,273**
NET OPERATING SURPLUS / (DEFICIT)	**44,998**	**43,002**	**1,996**	**59,091**
Net operating margin	0	0	0	0
RTB Income	0	0	0	0
Interest payable & similar charges	(34,257)	(37,226)	2,969	(49,553)
STATUTORY SURPLUS / (DEFICIT)	**10,741**	**5,776**	**4,965**	**9,538**

INVESTMENT	Year To 31 December 2020 Actual £k	Budget £k	Variance £k	Full Year Budget £k
Total Capital Investment Income	**5,072**	**10,619**	(5,546)	**17,668**
Total Expenditure on Core Programme	18,695	36,618	17,923	47,045
New Build & Other Investment Expenditure	21,083	35,015	13,932	44,959
Other Capital Expenditure	2,056	2,443	387	3,257
TOTAL CAPITAL EXPENDITURE	**41,834**	**74,076**	**32,242**	**95,261**
NET CAPITAL EXPENDITURE	**36,762**	**63,457**	**26,695**	**77,593**

- **Key highlights year to date:**
- Net operating surplus of £44,381k is £1,379k favourable to budget. Statutory surplus of £10,124k is £4,348k favourable to budget. The key drivers for the variance are lower rental and grant income due to the delay in GHA completions from March and lower levels of expenditure resulting from the changes to the business in response to the pandemic.
- Net rental income is £1,127k adverse to budget; showing the rental income impact of the delays in new build completions and a higher level of void losses on existing properties. Void losses are £590k higher than budget, representing a year to date void loss rate of 1.12% compared to budget of 0.7%, as normal re-letting activities have been impacted by restrictions earlier in the year and the ongoing requirement for social distancing measures. During this period, GHA have provided properties to GCC for use as temporary homeless accommodation, which has assisting in mitigating void losses.
- Grant income recognised in the year to date relates to the total of 234 units completed at Inglefield, Linkwood, Bellrock, Auchinlea and Scaraway developments.
- ERVR spend includes costs for leavers linked to the new staff operating model, with a number of staff due to take up ERVR in the last quarter.
- Total running costs are £1,810k favourable to budget with the variance largely linked to the change in the operation of the business which has resulted in lower costs in a number of areas against budget. Unbudgeted PPE costs of £298k are included.
- Revenue repairs and maintenance expenditure is £7,464k favourable to budget. The service has been impacted by the revised Scottish Government restrictions since September, with continued favourable variances to budget seen across most areas of repairs.
- Core capital investment programme spend on existing stock is £17,923k lower than budget driven by the postponement of new internal works during the pandemic restrictions.
- New build spend is £13,932k lower than budget following the initial closure all construction sites and remobilisation with enhanced health and safety measures. Activity is accelerating with spend in the month of December £214k higher than budget.

2c) Cube – Year to date

	Year To 31 December 2020 Actual £k	Budget £k	Variance £k	Full Year Budget £k
INCOME				
Rental Income	14,459	14,537	(79)	19,383
Void Losses	(229)	(321)	92	(428)
Net Rental Income	**14,230**	**14,216**	**13**	**18,955**
Other Income	236	417	(181)	636
Grant Income	2,079	104	1,974	139
Total Income	**16,544**	**14,737**	**1,807**	**19,730**
EXPENDITURE				
Employee Costs - Direct	2,551	2,631	79	3,508
Employee Costs - Group Services	624	666	42	888
ER / VR	17	0	(17)	0
Direct Running Costs	1,276	1,393	117	1,909
Running Costs - Group Services	332	426	94	567
Revenue Repairs and Maintenance	1,929	2,609	680	3,183
Bad debts	133	409	276	543
Depreciation	5,494	5,494	0	7,349
TOTAL EXPENDITURE	**12,357**	**13,627**	**1,270**	**17,946**
OPERATING SURPLUS / (DEFICIT)	**4,187**	**1,110**	**3,077**	**1,784**
Net operating margin	25.3%	7.5%	17.8%	9.04%
Interest Receivable	1	0	1	0
Interest Payable	(3,689)	(3,856)	167	(5,147)
STATUTORY SURPLUS / (DEFICIT)	**499**	**(2,746)**	**3,245**	**(3,363)**

	Year To 31 December 2020 Actual £k	Budget £k	Variance £k	Full Year Budget £k
INVESTMENT				
Total Capital Investment Income	**3,313**	**6,980**	**(3,667)**	**9,827**
Investment Works	1,012	3,177	2,165	4,235
New Build	4,317	7,397	3,080	11,082
Other Capital Expenditure	171	140	(31)	187
TOTAL CAPITAL EXPENDITURE	**5,500**	**10,714**	**5,214**	**15,505**
NET CAPITAL EXPENDITURE	**2,187**	**3,734**	**1,547**	**5,678**

Key highlights year to date:

- Net operating surplus of £4,187k is £3,077k favourable to budget. Statutory surplus for the period to date is £499k, £3,245k favourable to budget. The main drivers of the variance are grant income from the delayed completion of Westcliff (2019/20 to this financial year) and lower costs resulting from the current COVID 19 restrictions.
- Rental income received is £79k adverse budget as a result of the delay in completing the Westcliff units (March 20 to July) and a provision of £32k for refund of some service charges to tenants during the pandemic. Void losses in the year to date are 1.58% against a budget of 2.21%, generating a favourable variance of £92k
- Other income includes any income from non-social housing stock and district heating schemes. The adverse variance of £181k relates to District Heating income, through the temporary suspension of tenant charges for heat usage. Cube, however, continue to bear the costs.
- Direct employee costs are £79k favourable to budget including savings in overtime and agency costs. Cube's share of Wheatley Solutions staff is also favourable to budget, with a similar claim made under the HMRC scheme.
- Direct Running Costs are favourable to budget by £117k, due to savings across a number of office and staff related items as a result of COVID 19 restrictions.
- Revenue repairs and maintenance expenditure is £680k favourable to budget following to lower levels of reactive and cyclical repairs through COVID restrictions, however FIT testing and MSF works have progressed well over the last month.
- Bad debts continue to report a favourable variance to budget. A prudent approach to Universal Credit was taken when setting the budget.
- Net capital expenditure of £2,187k is £1,547k lower than the budget. Investment works continue to report lower spend due to the COVID 19 restrictions and this has also impacted new build. Capital investment income of £3,313k is mostly for Queens Quay.
- Investment works expenditure of £1,012k mainly relates to voids, capitalised repairs and compliance investment works.
- New build expenditure to date mostly relates to Queens Quay. Sawmill Field reports an underspend to budget of £1.9m, following a change from monthly payments to turnkey at the request of the developer.

2d) West Lothian Housing Partnership – Year to date

WEST LOTHIAN Housing Partnership

	Year to 31 December 2020			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INCOME				
Rental Income	2,593	2,703	(110)	3,664
Void Losses	(10)	(84)	74	(112)
Net Rental Income	**2,583**	**2,619**	**(36)**	**3,552**
Other Income	3	6	(2)	22
HAG Recognised in the Year	547	0	547	11,263
TOTAL INCOME	**3,133**	**2,625**	**509**	**14,836**
EXPENDITURE				
Employee Costs - Direct	381	410	28	546
Employee Costs - Group Services	67	67	0	72
Direct Running Costs	195	277	82	367
Running Costs - Group Services	43	43	0	46
Revenue Repairs and Maintenance	257	432	175	582
Bad Debts	30	37	7	49
Depreciation	1,222	1,277	55	1,702
TOTAL EXPENDITURE	**2,195**	**2,542**	**347**	**3,364**
NET OPERATING SURPLUS / (DEFICIT)	**938**	**82**	**856**	**11,472**
Net Operating Margin	*30%*	*3%*	*27%*	*77%*
Interest receivable	0	1	(1)	2
Interest payable	(770)	(992)	222	(919)
STATUTORY SURPLUS / (DEFICIT)	**168**	**(909)**	**1,077**	**10,554**

	Year to 31 December 2020			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INVESTMENT				
Total Capital Investment Income	**2,836**	**6,287**	**(3,451)**	**8,659**
Total Expenditure on Core Programme	189	483	295	645
New Build & Other Investment	4,902	13,391	8,490	18,138
Other Capital Expenditure	21	20	(1)	27
TOTAL CAPITAL EXPENDITURE	**5,111**	**13,895**	**8,784**	**18,809**
NET CAPITAL EXPENDITURE	**2,275**	**7,608**	**5,333**	**10,150**

Key highlights year to date:

- Net operating surplus of £938k is £856k favourable to budget. Statutory surplus for the period to 31 December is £168k, £1,077k favourable to budget.
- The main driver of the variance is lower expenditure in the year as a result of the COVID 19 restrictions and unbudgeted HAG recognised of £547k. The HAG is related to the final 8 units at Dixon Terrace which were completed in July. These units were originally due to be completed in March 2020 but were delayed due to site closures.
- The original budget presumed that the units transferring from Barony HA would do so on 1 April 2020. The transfer took place on 17 May 2020. A number of the variances in the year to date relate to the revised timing of the transfer from Barony HA
- Gross rental income of £2,593k is £110k adverse to budget. The majority of this variance relates to the delay in the transfer of the Barony properties. Void losses are £74k favourable to budge, with additional budget provision mad e in Barony supported properties.
- Total expenditure of £2,195k is £347k favourable to budget. Of this variance £113k relates to the Barony units. The largest variance in expenditure relates to revenue repairs and maintenance expenditure which is £175k favourable to budget. Of this variance £32k relates to the Barony properties with the remaining variance due to the revised operating model which has resulted in lower than expected costs.
- Gross interest payable of £770k represents interest due on the loans due to Wheatley Funding Ltd 1, with interest costs lower linked to the profile of spend in the capital investment and new build programmes
- Core investment expenditure of £189k is £295k lower than budget. Of this variance £42k relates to the Barony units and the remaining variance is attributable to the postponement of a number of planned investment works as a result of the Coronavirus epidemic.
- New Build expenditure of £4,902k is reported at the end of period with the variance of £8,490k driven by the closure of all construction sites in the first quarter. The main variances relate to Almondvale which is £2,990k under budget and Jarvey Street where spend is £1,980k below the original budget as well as the Harthill project which did not proceed where the budget is £2,154k. Grant income of £2,836k has been received in the year to date.

2e) Loretto Housing – Year to date

Loretto Housing

	Year to 31 December 2020 Actual £k	Budget £k	Variance £k	Full Year Budget £k
INCOME				
Rental Income	6,147	6,168	(21)	8,224
Void Losses	(203)	(199)	(4)	(266)
Net Rental Income	**5,944**	**5,969**	**(25)**	**7,959**
Other Income	214	212	2	283
Grant Income	215	54	161	72
Total Income	**6,373**	**6,235**	**138**	**8,314**
EXPENDITURE				
Employee Costs - Direct	981	1,004	23	1,338
Employee Costs - Group Services	189	202	13	269
ER / VR	0	0	0	0
Direct Running Costs	1,037	1,157	119	1,531
Running Costs - Group Services	101	129	28	172
Revenue Repairs and Maintenance	784	1,073	289	1,388
Bad debts	55	167	112	221
Depreciation	2,768	2,768	0	3,701
TOTAL EXPENDITURE	**5,915**	**6,499**	**584**	**8,620**
OPERATING SURPLUS / (DEFICIT)	**458**	**(264)**	**722**	**(306)**
Net operating margin	7.2%	-4.2%	11.4%	-3.68%
Interest Receivable	1	0	1	0
Interest Payable	(1,521)	(1,493)	(28)	(1,978)
STATUTORY SURPLUS / (DEFICIT)	**(1,062)**	**(1,757)**	**695**	**(2,284)**

	Year to 31 December 2020 Actual £k	Budget £k	Variance £k	Full Year Budget £k
INVESTMENT				
Total Capital Investment Income	**4,586**	**6,996**	**(2,410)**	**8,889**
Investment Works	379	1,144	765	1,525
New Build	1,182	7,276	6,095	11,036
Other Capital Expenditure	65	135	69	179
TOTAL CAPITAL EXPENDITURE	**1,626**	**8,555**	**6,929**	**12,741**
NET CAPITAL EXPENDITURE	**(2,960)**	**1,558**	**4,519**	**3,851**

Key highlights year to date:

- Net operating surplus of £458k is £722k favourable to budget. Statutory deficit for the period to date is £1,062k, £695k favourable to budget. The main drivers of the variance are lower costs resulting from the current COVID-19 restrictions.
- Net rental income is £25k unfavourable to budget, following provision of £24k for refund of some service charges to tenants during the pandemic.
- Void losses in the year to date are 3.30% against a budget of 3.25%, resulting from the delayed letting of properties earlier in the year. At the Fordneuk supported service, there are currently 12 voids that are awaiting a nomination from GCC.
- Grant income mainly relates to Buckley Street. No further grant income is budgeted for the year, with no other new build completions due in 2020/21.
- Direct running costs are £119k favourable to budget, primarily due to reduced spend on office and staff related expenditure as a result of COVID 19 restrictions. Group Services Running Costs of £101k represents Loretto share of Wheatley Solutions running costs.
- Revenue repairs and maintenance expenditure is £289k favourable to budget due to lower levels of spend in reactive repairs and cyclical maintenance, however compliance maintenance costs are broadly in line with budget at December.
- Bad debts are £112k favourable to budget. A prudent approach was taken when setting the budget due to the anticipated impact of Universal Credit.
- The net capital position of £2,960k (net income) is £4,519k lower than budget. The net income position results from receipt of the Dargavel donation (£3.6m) upfront, before any of the costs have been incurred. Investment works continue to report lower spend due to the COVID 19 restrictions and this has also impacted new build.
- Investment works expenditure of £379k relates to voids and capitalised repairs.
- New build expenditure of £1,182k mainly relates to spend at Cobblebrae Farm and Hallrule Drive. The Dargavel site start date has been revised to February 2021. Cobblebrae Farm and Hallrule were on site in November 2020.
- Other capital expenditure of £65k relates to Loretto contribution to Wheatley Group IT. Full year budget includes £108k budgeted for office refurb and conversion of housing properties previously used as offices by Wheatley Care. It is anticipated this will not be spent in 2020/21.

2f) Dunedin Canmore – Year to date

	Year to 31 December 2020 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INCOME				
Rental Income	22,153	22,662	(508)	30,153
Void Losses	(426)	(300)	(126)	(363)
Net Rental Income	**21,727**	**22,362**	**(634)**	**29,791**
HAG Recognised in the Year	5,383	0	5,383	0
Other Income	1,665	2,016	(351)	2,853
TOTAL INCOME	**28,775**	**24,378**	**4,397**	**32,643**
EXPENDITURE				
Employee Costs - Direct	3,460	3,500	40	4,667
ER/VR	7	0	(7)	-
Employee Costs - Group Services	1,179	1,260	81	1,679
Direct Running Costs	2,424	2,620	196	3,398
Running Costs - Group Services	611	803	192	1,071
Revenue Repairs and Maintenance	2,265	3,174	909	4,279
Bad Debts	160	217	57	290
Depreciation	5,759	5,851	92	7,801
TOTAL EXPENDITURE	**15,865**	**17,425**	**1,560**	**23,186**
NET OPERATING SURPLUS / (DEFICIT)	**12,910**	**6,953**	**5,957**	**9,457**
Net Operating Margin	*45%*	*29%*	*16%*	*29%*
Interest receivable	1	9	(9)	13
Interest payable	(5,957)	(6,016)	59	(7,891)
STATUTORY SURPLUS / (DEFICIT)	**6,954**	**946**	**6,008**	**1,579**

	Year to 31 December 2020 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INVESTMENT				
Total Capital Investment Income	**3,558**	**11,630**	**(8,072)**	**15,135**
Total Expenditure on Core Programme	2,860	4,077	1,217	5,437
New Build & Other Investment	4,908	16,022	11,115	23,925
Other Capital Expenditure	271	242	(30)	350
TOTAL CAPITAL EXPENDITURE	**8,039**	**20,340**	**12,301**	**29,712**
NET CAPITAL EXPENDITURE	**4,481**	**8,710**	**4,229**	**14,577**

Key highlights year to date:

- Net operating surplus of £12,910k is £5,957k favourable to budget. Statutory surplus for the period to 31 December is £6,954k, £6,008k favourable to budget.
- The key driver of the variance to budget is the £5,383k of HAG income recognised on completion of 83 units at Beaverbank (41 Social rent units), Lang Loan (7 social rent units), Morrison Crescent (19 MMR units) and Greendykes (16 MMR units). These units were originally due to be completed in period 12 of 2019/20.
- Net rental income is reporting a £634k adverse variance. Gross rent is £508k adverse to budget, the majority of this variance (£405k) relates to rental income expected from the units originally budgeted to be transferred from Barony HA on 1 April which were transferred on 1 September. The remaining variance includes a refund of service charges relating to environmental services which have been impacted by the covid-19 restrictions. Void losses are £126k adverse to budget largely due to an earlier backlog as a result of covid-19 restrictions now cleared and the ongoing restrictions on normal letting such as social distancing measures.
- Other Income is £351k adverse to budget. This is largely as a result of DC Property Services ("DCPS") generating a loss of £318k in the YTD against a budgeted profit of £59k due to a changes to service delivery and a lower level of activity against which to recover staff time.
- Total expenditure is £1,560k favourable to budget. Of this variance £193k is linked to the Barony units. The largest variance relates to repairs and maintenance costs which are £909k favourable to budget. Of this variance £51k relates to Barony and the remaining variance is a result of the revised operating model which has resulted in a lower number of repair jobs. While the lower activity levels result in a reduction to costs recorded for the work undertaken, the costs of the in-house repairs staff not allocated to repair jobs is reported as a loss of £318k within other income leaving net repairs costs £533k lower than budget. The volume of reactive repair jobs is 33% lower than the same period last year.
- Interest expenditure is £59k favourable to budget. Borrowings are linked to the new build and core investment programmes.
- Investment expenditure on existing properties is £1,217k lower than budget. Of this variance £139k relates to Barony and the remaining variance reflects the postponement of a number of work types in the investment programme.
- New build spend of £4,908k is £11,115k lower than budget as a result of construction site closures between March and June and the requirement for enhanced health and safety measures on remobilised sites.

2g) Barony – Year to date (ceased August 2020)

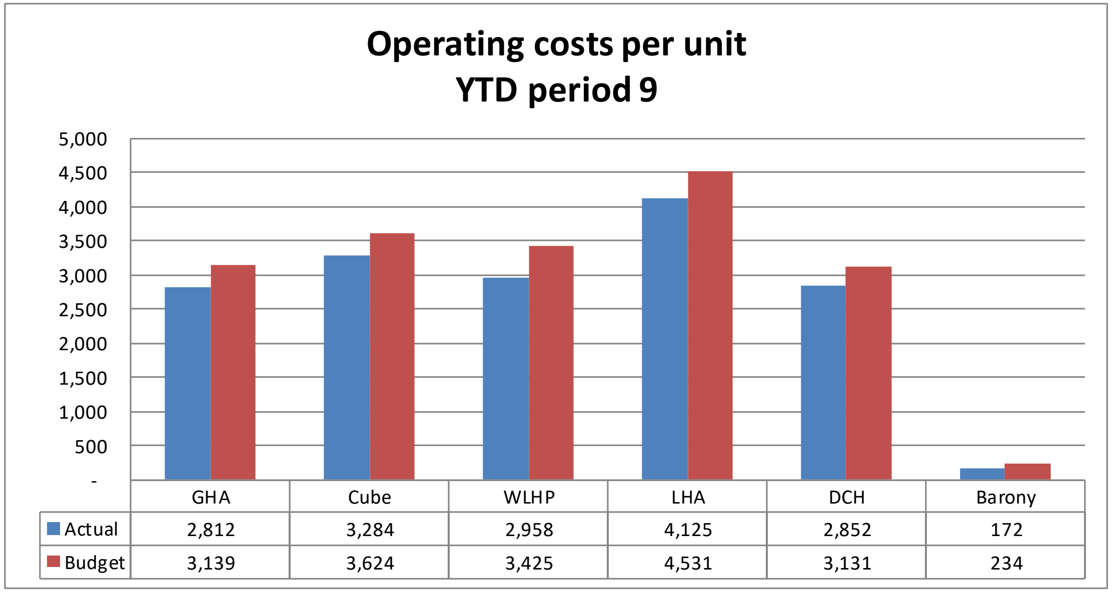
BARONY - HOUSING	Year to 31 August 2020		
	Actual £ks	Budget £ks	Variance £ks
INCOME			
Rental Income	540	546	(6)
Void Losses	(38)	(24)	(14)
NET RENTAL INCOME	**502**	**522**	**(20)**
Other Income	7	0	7
TOTAL INCOME	**509**	**522**	**(13)**
EXPENDITURE			
Employee Costs - Direct	15	17	2
Employee Costs - Group Services	0	0	0
Direct Running Costs	56	61	5
Running Costs - Group Services	0	0	0
Revenue Repairs and Maintenance	61	83	22
Bad Debts	1	3	2
Depreciation	133	133	0
TOTAL EXPENDITURE	**266**	**297**	**31**
NET OPERATING SURPLUS / (DEFICIT)	**243**	**225**	**18**
Interest Payable	(41)	0	(41)
STATUTORY SURPLUS / (DEFICIT)	**202**	**225**	**(23)**

INVESTMENT			
Total Capital Investment Income	**0**	**0**	**0**
Total Expenditure on Core Programme	32	182	150
New Build	0	0	0
Other Capital Expenditure	0	0	0
TOTAL CAPITAL EXPENDITURE	**32**	**182**	**150**
NET CAPITAL EXPENDITURE	**(32)**	**(182)**	**(150)**

Key highlights year to date:

- The results reported for the year to date show traded up to 31 August 2020 with the transfer of engagements taking place on 1 September 2020. Barony ceased trading after the transfer of engagements to Dunedin Canmore on 1 September.
- When setting the budget, the transfer of properties to West Lothian Housing Partnership and the transfer of engagements to Dunedin Canmore were both assumed to take place on 1 April 2020, and the results reported for Barony for the period to 31 August are compared to a notional budget for monitoring purposes.
- Net rental income of £502k is £20k adverse to budget. Rental income (including service charges) is £6k adverse to budget, with void losses £14k unfavourable to budget in the year to date, linked to supported properties and tenants relocating from Upper Gray Street to prepare for the disposal of the properties. The stock transfer to WLHP took place in May, therefore the results from June onwards include the remaining properties which transferred to Dunedin Canmore.
- Employee costs are £2k favourable to budget. Direct running costs are £5k favourable to budget for the year to date with lower property costs incurred.
- Repairs and maintenance expenditure is £61k, £22k favourable to budget. Reactive and cyclical repairs work are carried our by colleagues in Dunedin Canmore Property Services. Reactive repairs are favourable to budget by £26k, with cyclical repairs £10k favourable. Included within cyclical repairs is £7k for Legionella Testing.
- Core programme expenditure of £32k, is £150k favourable to budget. Due to the changes to the investment works in response to the COVID 19 pandemic.

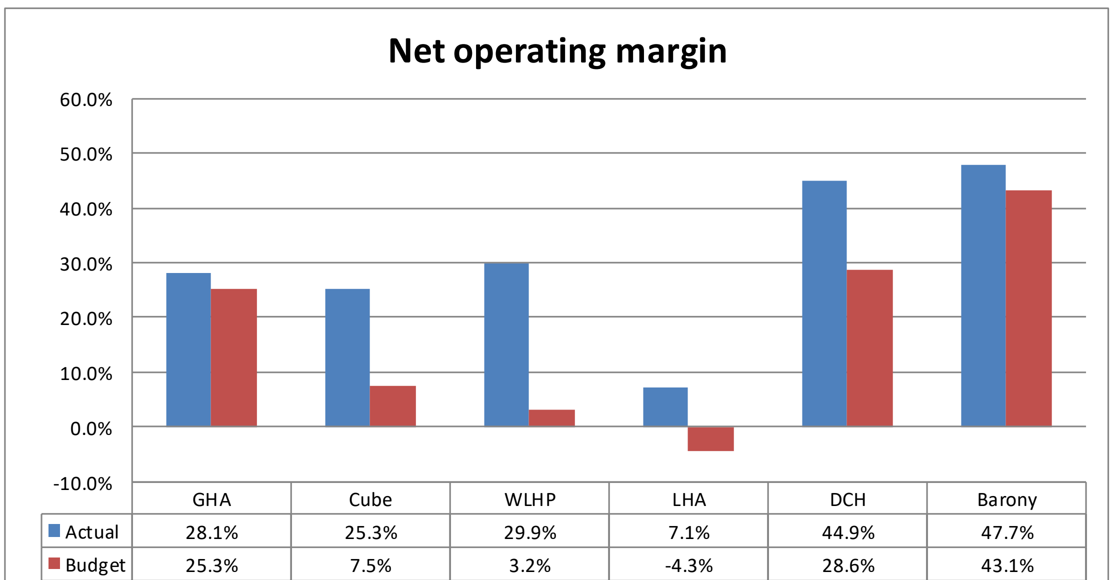
3) Summary of RSL operating costs and margin v budget



	GHA	Cube	WLHP	LHA	DCH	Barony
Actual	2,812	3,284	2,958	4,125	2,852	172
Budget	3,139	3,624	3,425	4,531	3,131	234

Operating costs per unit:

- At period 9 all RSLs are reporting favourable operating costs per unit for the year to date. All expenditure lines are reporting lower than budget owing to the changes in the operation of the business during the lockdown.
- Operating costs per unit vary across the RSLs depending on the stock profiles and types of accommodation offered.
- Barony data is shown up to August, based on management accounts for the period prior to the transfer of engagements to Dunedin Canmore.
- Barony has been included and reports trading results up to August 2020 based on management accounts in slide 10.



	GHA	Cube	WLHP	LHA	DCH	Barony
Actual	28.1%	25.3%	29.9%	7.1%	44.9%	47.7%
Budget	25.3%	7.5%	3.2%	-4.3%	28.6%	43.1%

Net operating margin:

- Net operating margin is favourable to budget in all subsidiaries for the year to date. Similar to operating costs, favourable variances across all expenditure lines is driving higher margins in all RSLs.

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Dumfries & Galloway Housing Partnership (DGHP)

4) Dumfries and Galloway Housing Partnership – year to date

	Year to 31 December 2020			Full Year
	YTD Actual £000s	YTD Budget £000s	YTD Variance £000s	Budget £ks
INCOME				
Rental Income	£33,944	£33,879	£65	£44,799
Void Losses	(£550)	(£339)	(£211)	(£890)
Net Rental Income	**£33,394**	**£33,540**	**(£146)**	**£43,909**
Grant Income	£0	£0	£0	**£1,367**
Other Income	£2,023	£1,366	£657	**£1,677**
Total Income	**£35,417**	**£34,906**	**£511**	**£46,953**
EXPENDITURE				
Employee Costs - Direct	£4,186	£4,992	£806	£6,656
Employee Costs - Group Services	£0	£0	£0	£0
ER / VR	£1,087	£476	(£611)	£476
Direct Running Costs	£3,427	£3,633	£206	£4,900
Running Costs - Group Services	£0	£0	£0	£0
Revenue Repairs and Maintenance	£6,088	£9,698	£3,610	£12,239
Irrecoverable VAT and bad debts	£170	£691	£521	£921
Depreciation	£6,778	£6,778	£0	£10,747
Demolition and Tenants Compensation	£0	£0	£0	£0
TOTAL EXPENDITURE	**£21,736**	**£26,268**	**£4,532**	**£35,939**
NET OPERATING SURPLUS / (DEFICIT)	**£13,681**	**£8,638**	**£5,043**	**£11,014**
Net operating margin	*38.6%*	*24.7%*	*13.9%*	*23.5%*
Interest receivable	£99	£181	(£82)	£241
Net Interest payable & similar charges	(£5,097)	(£4,899)	(£198)	(£6,451)
STATUTORY SURPLUS / (DEFICIT)	**£8,683**	**£3,920**	**£4,763**	**£4,804**

INVESTMENT	Year to 31 December 2020			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
Total Capital Investment Income	**£1,108**	**£2,587**	**(£1,479)**	**£3,449**
Total Expenditure on Core Programme	£6,563	£20,046	£13,483	£25,105
New Build & other investment expendi	£5,205	£9,793	£4,588	£13,056
Other Capital Expenditure	£220	£1,250	£1,030	£1,545
TOTAL CAPITAL EXPENDITURE	**£11,988**	**£31,089**	**£19,101**	**£39,706**
NET CAPITAL EXPENDITURE	**£10,880**	**£28,502**	**£17,622**	**£36,257**

Key highlights year to date:

Operating surplus is £13.7m, £5.0m favourable to budget, and statutory surplus of £8.7m, is £4.8m favourable to budget. The key driver of the variance is the impact of Covid-19 restrictions on repairs and operational expenditure.

Rental income is adverse to budget by £146k, driven by void losses. Void loss is 1.62% against a 1% target and has been impacted by restrictions on normal letting activity. Void loss for the month of December is 1.12% showing an improving trend.

Other income is £657k favourable and includes additional medical adaptation income, unbudgeted ret for Curries Yard, supporting people funding, higher levels of factoring repairs billed and unbudgeted income for the Young Persons project and temporary accommodation.

Employee costs are £806k favourable to budget, and driven by furlough claims received of £354k and the capitalisation of investment staff in line with group policy.

Transformation costs are being driven forward with a higher number of leavers in the year, these are linked to the earlier implementation of the new operating model and will yield savings in 2021/22.

Repairs is £3,610k favourable to budget relating to:

- £3,243k favourable across reactive repairs and gas maintenance;
- £2.1m favourable on revenue compliance spend with more capitalised in line with group policy. £643k spend compared to YTD budget of £2.7m. A further £879k has been capitalised ; offset by
- £1.7m of unrecovered staff and overhead costs for the in- house team with activity lower than planned. This loss has not significantly increased since October after which a near to full service resumed.

Bad debts are £521k favourable to budget as a result of the close management of arrears levels. Current tenant debt is at same levels as at end of March after the Christmas period. The arrears project and implementing the 1:200 housing officer patch sizes have helped to mitigated any increase.

Net interest cost is £280k adverse with low deposit rates, and non-utilisation fees being recorded on the RBS loan.

Net Capital Expenditure is £17,365k lower than budget:-

- Core programme is £13,483k lower than budget due to the re-profiling of the planned programme earlier in the year. Increased spend has been reported through November and December.
- The New Build programme is £4,588k lower than budget with the main sites of Nursery Avenue, Lincluden and Monreith progressing well, with 5 units anticipated to be complete at Monreith in April 2022.
- IT project costs are unspent YTD against budget of £773k. The programme has now commenced, forecasting £150k of spend by March 2021, with spend moving into 2021/22.
- DGHP office in central Dumfries has been purchased and refurbishment plans are being developed.

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Care and Commercial

5a) Wheatley Care – Year to Date

WHEATLEY CARE - COMPANY	Year to 31 December 2020 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INCOME				
Care Projects	14,607	15,010	(403)	19,981
COVID 19 PPE Reclaim Income	186	-	186	-
Head Office	33	36	(3)	47
TOTAL INCOME	**14,826**	**15,046**	**(220)**	**20,028**
CARE CONTRACT COSTS				
Employee Costs - Care Contracts	11,090	11,753	663	15,670
Running Costs - Care Contracts	1,469	1,784	315	2,379
TOTAL CARE CONTRACT COSTS	**12,559**	**13,537**	**978**	**18,049**
EXPENDITURE				
Employee Costs - Head Office	1,139	845	(294)	1,127
Employee Costs - Group Services	108	113	5	150
ER/VR	47	-	(47)	-
Head Office Running Costs	128	142	14	190
Running Costs - Group Services	61	71	10	94
Group recharges - PPE	529	-	(529)	-
Management fee payable to LHA	152	152	-	203
TOTAL EXPENDITURE	**2,164**	**1,323**	**(841)**	**1,764**
SURPLUS/(DEFICIT)	**103**	**186**	**(83)**	**215**

Key highlights year to date:

- Net Operating surplus of £103k is £83k unfavourable to budget for the year to December 2020. Total income is £220k adverse to budget, offset by lower Care contract employee and running costs being favourable to budget in the period. Unbudgeted PPE costs of £529k are reported. Included within Head Office employee costs are two one off payments to Care staff, paid in August and December.

- Total **Care Project income** of £14,607k is £403k unfavourable to budget. This is due to service hours at SDS services being below budgeted levels in the year (£259k adverse to budget). In addition, £163k of income was budgeted for the new Edinburgh HST service. The new service was delayed due to COVID, and commenced in September with £40k of income recognised to date.

- **Employee Costs – Care Contracts** expenditure of £11,090k is £663k favourable to budget. This relates to a number of services operating with staff vacancies vs budget. Staff savings are mostly linked to fewer hours being delivered at services, and management of customer vacancies. Staff levels are monitored monthly and adjusted to meet individual service needs. The Glasgow services continue to contribute the largest positive variance to budget - £348k favourable to budget, linked to the reduction in SDS hours.

- **Running costs – Care Contract** costs of £1,469k are £315k favourable to budget. There was a budget of £30k for running costs for the new Edinburgh HST service, which as noted above commenced in September. Almost every service is reporting a favourable variance to budget for running costs. The drop-in Day Centres in Edinburgh and Fife are also currently closed, and are therefore incurring no day to day running costs (£43k favourable to budget).

- **Employee Costs – Head Office** expenditure of £1,139k is £294k unfavourable to budget. Included within Head Office employee costs is a maternity cover post. In August, a one off payment was made to Care staff that worked throughout lock down, totalling £117k which has been included in the Care Management figures. An additional one of payment to staff was made in December, totalling a further £87k. There is also £47k of unbudgeted ER/VR costs through in the year to date.

- **Head Office Running Costs** of £128k are £14k favourable to budget with savings in property costs and direct running costs including training.

- **Group recharges – PPE** unbudgeted costs total £529k. Claims have been submitted to local authorities and the position will remain under review.

- **Reserves** at the end of December totalled £3,037k. This equates to 1.88 month's of expenditure. The opening reserves position at 1 April includes an adjustment for the care assets and liabilities transferred from Barony upon the creation of Wheatley Care.

5b) Lowther – Year to date

[redacted]:

6) Wheatley Solutions – Year to date

	Year to 31 December 2020			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
EXPENDITURE				
Employee costs				
Executive Team	1,115	1,150	36	1,527
Employee Relations and WFP	1,546	1,409	(137)	1,870
Marketing and Communications	520	528	7	700
Assurance	876	894	18	1,066
Academy	525	565	40	750
Finance	1,930	1,839	(91)	2,463
Company Secretary	619	649	30	904
Information Technology	972	914	(58)	1,213
Business Growth	559	613	54	814
Wheatley Hub	2,989	2,956	(33)	3,914
Property	710	662	(48)	879
Wheatley 360	272	276	4	366
Furlough income	(1,078)	0	1,078	0
Total employee costs	11,346	12,246	900	16,111
Running costs				
Executive Team	39	169	130	209
Employee Relations and WFP	366	551	185	720
Marketing and Communications	123	373	250	461
Assurance	26	62	36	83
Academy	231	484	253	645
Finance	381	412	31	589
Company Secretary	184	540	356	738
Information Technology	2,820	3,111	292	4,148
Business Growth	79	355	275	490
Wheatley Hub	29	32	4	43
Property	1,338	1,242	(96)	1,656
Wheatley 360	16	15	(1)	20
Total running costs	5,765	7,481	1,716	9,986
Regulated insurance activities	320	2,392	2,072	3,189
Head office costs	979	979	0	1,305
TOTAL EXPENDITURE	**18,410**	**23,097**	**4,687**	**30,590**

Key highlights year to date:

The table presents the financial performance of Wheatley Solutions for the first nine months of the 2020/21 financial year. Both employee costs and running costs are recovered in full 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 £18,410k. This is £4,687k lower than budget for the period with lower employee and running costs and the transfer of regulated insurance activity from YourPlace occurring later than budgeted all contributing to this variance.

- Employee costs of £11,346k are £900k favourable to budget. Variance reported across departments includes changes made to budgeted structure as at 1 April 2020 or maternity leave cover for staff (Finance, Assurance, Employee Relations). Some additional costs are also reported linked to staff working from home receiving an allowance.
- Running costs of £5,765k are favourable to budget by £1,716k for the period. The key variances within this are:
  - A number of the departments report lower costs across Wheatley Solutions with large number of staff working from home. Reduced activity in Academy, Business Growth (lower litigation costs), Company Secretary (delay in annual surveys until 21/22) and marketing expenditure are the areas contributing most to savings against budget.
  - Property expenditure of £1,338k is ahead of with budget for the period. Savings through Facilities Management, such as reduced postage costs, have partially helped to offset additional spend on PPE costs of £185k recorded in Solutions to support the Group's response to the Covid19 pandemic as well as unbudgeted litigation costs for a contractor negligence claims at Duke Street and Wyndford.
- Regulated insurance activities are now provided by Wheatley Solutions and figures presented relate to the first month of activity.
- Due to lower than budgeted costs, the income received from subsidiaries is less than budgeted. The only exception to this is YourPlace, which has been adjusted to reflect the provision of regulated insurance activities by YourPlace for the period up to November 2020

7) Wheatley Foundation – Year to date

	Year to 31 December 2020			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INCOME				
Donations from Wheatley subsidiaries	2,785	1,852	932	3,924
Employability Grants	56	244	(188)	300
External income	1,066	595	471	710
Total Income	**3,906**	**2,691**	**1,215**	**4,934**
EXPENDITURE				
Overheads	570	768	199	1,094
Tackling Poverty & Social Inclusion	2,436	423	(2,013)	642
Education	125	104	(21)	210
Digital Inclusion		60	60	63
Employability	666	1,400	734	1,800
Sports / Arts		3	3	44
Money/Welfare Benefits advice	1,130	1,108	(22)	1,471
TOTAL EXPENDITURE	**4,927**	**3,867**	**(1,061)**	**5,345**
NET OPERATING SURPLUS / (DEFICIT)	**(1,021)**	**(1,175)**	**155**	**(411)**

Key highlights year to date:

The table presents the financial performance of Wheatley Foundation for the first nine months of this financial year. The Wheatley Foundation reports a deficit of £1,021k for the period. This is better than budget by £155k. The Foundation is able to support this position since it started the year with a sufficient level of cash reserves and ends the period with a closing reserve of £135k.

Income of £3,906k is reported for the period, which is £1,215k higher than budget.

- Donations from Wheatley group subsidiaries total £2,785k. Annual gift aid from Your Place is budgeted to be received later in the year. An additional £450k donation has been made by GHA to support emergency food packages and a further RSL donation of £474k to fund Christmas vouchers.
- Employability grants of £56k are lower than budget by £188k.
- External income of £1,066k is reported; the majority of income raised is in relation to Foundation activity in supporting the Group's most vulnerable customers through the impact of the Covid-19 outbreak. Notable donations and grants:
  - Scottish Government grants totalling £705k to support food packages, emergency response fund and welfare benefits team in supporting customers access all available benefits.
  - Barclays have awarded a £100k grant to support food packages (£40k) and emergency response fund (£60k).
  - Other donations include: Dunedin Canmore Foundation donation of £20k, Energy Action Group (£10k), Shepherd & Wedderburn (£10k), Foundation Scotland (£9k), Wheatley supplier and private donations of £20k.

Expenditure of £4,927k is £1,061k higher than budgeted.

- Overhead costs of £570k are £199k lower than budget due to number of Foundation staff being placed on furlough during the year.
- Tackling Poverty & Social Inclusion spend of £2,436k is reported against a budget of £423k. The main project spend for the period relates:
  - Home Comforts and Eat Well spend of £226k. This is for the core staff and running costs of project
  - Emergency food support of £1,139k and emergency response payments of £393k.
  - Vouchers of £474k issued during festive period to support vulnerable customers with young children.
  - Financial inclusion project costs of £133k.
- Employability expenditure of £666k is £734k lower than budget. The key items of expenditure for the period relate to £599k for the modern apprentice and City Building apprenticeship programmes and Wheatley Works costs of £67k.

9) Wheatley Group – Consolidated Balance Sheet

	Current Month As at 31 Dec 2020 £ks	Previous yr end As at 31 March 2020 £ks
Fixed Assets		
Social Housing Properties	2,210,074	2,228,478
Properties under construction	143,223	122,275
Other tangible fixed assets	62,402	59,276
Investment properties	222,889	222,779
Investments -other	116	116
Fixed Assets	**2,638,704**	**2,632,924**
Debtors Due More Than One Year		
Development Agreement	16,656	20,478
Inter Company Loan	0	0
Pension Asset	13,585	13,585
Current Assets		
Trade debtors	0	0
Rent & Service charge arrears	12,788	13,548
less: Provision for rent arrears	(8,203)	(7,743)
Prepayments and accrued income	13,176	11,559
Intercompany debtors	0	0
Other debtors	21,583	16,327
	39,344	**33,691**
Bank & Cash	169,368	116,361
Current Assets	**208,712**	**150,052**
Current Liabilities		
Trade Liabilities	(6,607)	(8,529)
Accruals	(37,354)	(33,746)
Deferred income	(61,310)	(66,303)
Rents & service charges in advance	(11,633)	(10,288)
Intercompany creditors	0	0
Other creditors	(13,014)	(12,741)
	(129,918)	**(131,607)**
Net Current Assets	**95,451**	**38,923**
Long Term Liabilities		
Contingent efficiencies grant	(36,693)	(36,693)
Bank finance	(1,193,480)	(1,156,129)
Bond finance	(296,386)	(296,386)
Development Agreement	(16,656)	(20,478)
Provisions	(1,010)	(1,094)
Deferred income	(29,093)	(25,372)
Intercompany creditors	0	0
Other creditors	(3,546)	(3,546)
Pension liability	(4,943)	(4,943)
Long Term Liabilities	**(1,581,807)**	**(1,544,641)**
Net Assets	**1,165,932**	**1,140,791**
Funding Employed		
Capital & Reserves		
Share Capital	0	0
Retained Income b/fwd	703,840	703,840
Income & Expenditure	25,141	0
Movement in Pensions Provision	0	0
Designated Reserves/gain on business	0	0
Revaluation Reserves	436,951	436,951
Funding Employed	**1,165,932**	**1,140,791**

Key highlights:

- Group net assets stand at £1,165.9m at 31 December 2020.
- The Balance Sheet as at 31 March 2020 is in line with the audited 2019/20 financial statements, and includes the year end statutory adjustments for property and pension valuations as well as the fair value calculation on the Scottish Government loan.
- The Group Balance Sheet incorporates the assets liabilities transferred through the acquisition of Dumfries and Galloway Housing Partnership ("DGHP") in December 2019.
- Current assets (excluding cash) are £5.6m higher than the year end position mainly driven by the higher levels of prepayments and other debtors, offset by lower balances for rent arrears, which fluctuate throughout the year depending on the timing of invoices.
- Current liabilities are £1.7m lower that the year end, with lower levels of deferred income. The movement on deferred income has been impacted by the release of grant to the income statement in the year less any additional grant received in the bank in the year.
- Long term liabilities are £37.2m higher with additional borrowings in WFL1 of £72m, offset with capital repayments to HSBC of £40m.
- Income and expenditure of £25.1m relates to the group profit for the year to date.

10) Wheatley Group – Q3 Forecast

Group - £k	FULL YEAR		
	Budget	Q3 Forecast	Variance
INCOME			
Net Rental Income	302,539	299,304	(3,235)
Grant Income	46,792	32,938	(13,854)
Other Income	41,928	41,155	(773)
Total Group Income	**391,258**	**373,397**	**(17,862)**
EXPENDITURE			
Employee Costs	88,656	82,395	6,261
ER/VR	1,209	12,000	(10,792)
Running Costs	46,856	43,522	3,335
Repairs & Maintenance	51,863	36,693	15,170
Irrecoverable VAT & bad debt	12,600	11,010	1,590
Depreciation	92,932	91,718	1,213
Demolition	930	515	415
Toal Group Expenditure	**295,044**	**277,853**	**17,191**
NET OPERATING SURPLUS	**96,214**	**95,544**	**(670)**
Net operating margin	*24.6%*	*25.6%*	*1.0%*
Gain/(loss) on sale of fixed assets	1,060	9	(1,051)
Net Interest Payable	(73,194)	(68,977)	4,217
STATUTORY SURPLUS	**24,079**	**26,576**	**2,496**

INVESTMENT	Budget	Q3 Forecast	Variance
Total Capital Investment Income	(63,626)	(42,296)	(21,330)
Core Investment Programme	84,591	44,440	40,151
New Build Programme	121,875	68,180	53,695
Other fixed assets	6,060	4,415	1,645
NET CAPITAL INVESTMENT SPEND	**148,901**	**74,739**	**74,162**

Wheatley Group

Key highlights:

The Group forecast full year out-turn at the end of Quarter 3 shows a net operating surplus of £95.5m, which is £0.7m unfavourable to budget and a statutory surplus of £26.6m, which is £2.5m favourable to budget. The forecast includes a provision for ERVR through the accelerated implementation of the new operating model.

Adjusted EBITDA after excluding grant income on new build completions of £154.3m is forecast compared to an EBITDA of £142.4m budgeted.

Total income is forecast to be £17.9m lower than budget:

- Net rental income is expected to be £3.2m unfavourable to budget and includes the impact of delays in new build completions within the RSLs and Lowther and the higher void loss across the majority of the RSLs and Lowther too. The forecast also includes in a provision for rebates on service charges for stair cleaning and environmental services for Q4.
- Grant income is expected to be £13.9m lower than budget. The forecast is based on the updated profile for 2020/21 completions and the recognition of grant on March 2021 completions coming through Q4.
- Other Income is forecast to be £0.8m lower than budgeted, largely driven by lower levels of income from factoring services, and a reduction in service charge income for staircleaning and ground maintenance services. This is offset by lower cost of sales reported through running costs.

Total expenditure is expected to be £17.2m lower than budget.

- The earlier implementation of the new operating model is linked to a higher number of staffing taking up ERVR to date delivering annualised efficiency savings of £5m with ERVR costs expected to be £10.8m higher than budget
- Running costs are expected to be £3.3m lower than budget, reflecting savings made in office and staff related expenditure creating capacity to absorb additional costs incurred for PPE across the Group, and additional NETs vehicle costs to maintain social distancing. Also included are lower levels of factoring service costs in Lowther.
- A variance of £15.2m is expected in repairs which reflects the lower costs to the end of Q3, with the service back to a safety first basis for Q4.
- A favourable variance in bad debts costs of £1.6m has been included in the forecast, reflecting the current position on arrears and bad debts provision compared to budget.
- The marketing for sale of supported properties in the east has been held up by the restrictions in place since Q1.
- Interest payments are forecast to be £4.2m lower than budget as a result of the revised investment and new build expenditure profile and the lower level of debt drawn to fund capital expenditure.

Net capital expenditure is forecast to be £74.2m lower than budget.

- The level of new build grant income claimed has been aligned with the revised new build spend profile, reducing investment income by £21.3m..
- A variance is expected in the core investment programme of £40.2m which reflects the lower costs to date with works expected to be back to a safety first basis for Q4, covering external and compliance work, and any emergency indoor repairs where access is provided.
- The new build development spend is expected to be £53.7m lower than budget, deferring costs into 2021/22.
- In other capital, IT capital is broadly in line with budget and costs for office reconfigurations and the move of DGHP to Group IT will fall forward into the coming financial year.

Report

To:	**Wheatley Housing Group Board**
By:	**Steven Henderson, Group Director of Finance**
Approved by:	**Martin Armstrong, Group Chief Executive**
Subject:	**Treasury Update**
Date of Meeting:	**24 February 2021**

1. Purpose

1.1 The purpose of this report is to:

- note the liquidity position of Wheatley Group as at 31 January 2021;
- note our position against loan covenants for quarter-end to 31 Dec 2020; and
- approve the updated legal agreements in relation to the £15m increased on-lend between GHA and Lowther Homes.

2. Authorising context

2.1 Under the Group Authorise, Manage, Monitor Matrix, the Group Board is responsible for authorising the Group funding structure. It is also responsible for the on-going monitoring of performance against agreed targets. This includes the on-going performance of its finances.

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 Our current liquidity risk is low given the significant steps the Board has agreed to put in place over the last 24 months to strengthen our funding position.

4. Background

4.1 The Group continues to have more than sufficient liquidity to meet our financial policy requirements, including our Golden Rule of having access to a minimum of two-years forward cash availability. This follows the drawdown of £72m of the 2018 EIB facility in April 2020 and the lower than budget expenditure resulting from Covid-19 restrictions on investments, repairs and new build.

4.2 The business plan anticipates that, with the exception of the drawdown of the remaining £28m from the 2018 EIB facility which is scheduled for around May 2021, there will be no external drawdowns required across the Wheatley Group debt facilities during 2021/22. We therefore will sit with 'excess' cash in the short-term and seek to widen the approved deposit counterparty banks given the extremely low rates payable by our Syndicate lenders.

5. Discussion

(i) Liquidity update

5.1 We have four main sources of liquidity:

1) Cash-at-hand and/or on term deposits
2) Committed Revolving Credit Facilities ("RCFs") and/or overdraft facilities
3) Undrawn committed term facilities (£28m remains to be drawn from EIB)
4) Bank of England Covid Corporate Financing Facility ("CCFF") scheme (£150m) availability expires 31/03/21

The table below shows the full Group position (WFL1, WFL2 and DGHP):

[redacted]

5.2 WFL1 was formally accepted as an Issuer under the Covid Corporate Financing Facility ("CCFF") scheme with a maximum limit of £150m on 1 September 2020. There has been no requirement to issue notes under this programme to date given the strong liquidity position and the slower consumption of cash by the RSLs after reversion to lockdown in January. WFL1 will no longer be able to access this 'emergency' funding beyond 31 March 2021 as the scheme closes thereafter. We note that the CCFF scheme was not in place when S&P completed their May 2020 assessment of Wheatley Group's liquidity and we do not anticipate that S&P will regard the expiry of the CCFF scheme negatively in their May 2021 review.

(ii) Deposits Strategy

5.3 The business plan anticipates that we will draw the final £28m under the 2018 European Investment Bank ("EIB") facility by June 2021 (the Availability Period expires that month). The next anticipated external drawdown for WFL1 will not take place until the first quarter of 2022/23. The RSLs will use cash resources from their own holdings, and subsequently drawdowns from WFL1 during 2021/22.

5.4 DGHP is not anticipated to require external funding until 2024/25 and WFL2 will draw from the Intra-Group Funding arrangement with GHA. This means that the Group will continue to have substantial funds available for term deposits over the coming financial year. The business plan anticipates that £55m from WFL1 and £30m from DGHP can be placed on deposit for 6 months without negatively impacting cashflow requirements and ensuring minimum cash balances across the Group RSLs are maintained.

5.5 Our last round of 6-month term deposits have reached or are reaching maturity. These deposits are with non-lending banks as none of our current lenders were paying acceptable rates at the time (indicative rates averaged [redacted]%). The Treasury Management Policy ("TMP") permits a maximum of £[redacted]m or [redacted]% of cash to be placed for a maximum term of 6 months with non-lending banks who meet stringent minimum credit rating criteria. The Policy also dictates that we can only place funds with one non-bank lender (currently Close Brothers). The details of Group deposits are summarised below:

WHG entity	Counterparty	Amount	Date deposit placed	Maturity Date	Rate
WFL1	[redacted]	£30.0m	11/08/20	11/02/21	[redacted]%
WFL1	[redacted]	£15.0m	02/10/20	06/04/21	[redacted]%
DGHP	[redacted]	£30.0m	19/08/20	19/02/21	[redacted]%

5.6 Deposit rates have dropped materially since the middle of 2020 on the expectation of lower interest rates for longer given economic disruption caused by Covid-19. As an example, Barclays are now paying [redacted]% for a 6 month term deposit, compared to the [redacted]% received for the deposit placed in August 2020. Indicative rates sourced directly from lenders and via our money market brokers, Tullet Prebons, on 09 February 2021 are summarised in the table below. Rates payable by non-bank lenders are marginally higher, but of the other institutions quoted, only Close Brothers is an approved deposit counterparty. They are currently closed for new deposits but anticipate demand by the end of February:

[table redacted]

5.7 We will continue to monitor the market and available rates, including the availability from Close Brothers, and update the Board at its next meeting.

5.8 The cashflow forecast (included in the Board pack), anticipates no external drawdowns for WFL1, with WLHP being the only RSL requiring an intra-group drawdown in Q4 (£2.5m in relation to the 120-unit Almondvale development). The other RSLs require no additional drawdowns from WFL1.

5.9 The £100m HSBC Revolving Credit Facility (“RCF”) expires in November 2023. Our funding rules require that we raise new or replacement funding with a minimum of 18 months to expiry. We commenced early discussions with three potential lenders for this refinancing in Autumn 2020 and will progress these discussions over the next six months.

(iii) Security update – addressing EIB final drawdown of £28.0m

5.10 The EIB 2018 facility of £185m has so far been drawn in two tranches:

Amount	Drawdown date	Fixed rate payable
£85.0m	01/10/19	[redacted]%
£72.0m	24/04/20	[redacted]%

£28m remains available under the facility to be drawn by 13 June 2021.

5.11 Security charging work is underway and we plan to complete the EIB drawdown process prior to the end of the availability period.

(iv) Covenant position across WFL1, WFL2, DGHP

5.13 The appended treasury pack sets out the covenants for WFL1, WFL2 and DGHP to 31 December 2020. These will be submitted to the respective lenders in line with our loan agreements.

5.14 All Wheatley borrowers remain covenant compliant, with compliance forecast in the business plan until the next refinancing date (2023/24 when HSBC £100m RCF is repaid).

(v) £15m increase in Intra-Group Agreement between GHA and Lowther Homes

5.15 The £15m increase, taking the GHA investment into Lowther up to a maximum of £45m has been approved by the GHA and Lowther Boards, as well as the WFL1 and WFL2 lenders. Our lawyers have prepared the required amendments to the legal agreements which are appended to this report. This comprises three documents:

1) **GHA and Lowther Intra-Group Agreement** to amend the amount of the investment
2) **Amendment to the Subordination Agreement** to update references to the amended loan documents
3) **Amendment to Scottish Widows WFL2 lending agreement** to increase Permitted Distributions to reflect the increased investment

5.16 While the documentation is in execution form, we await confirmation from HMRC that the investment continues to be a 'qualifying loan' for charitable purposes. HMRC has signed-off on this previously in 2011 and 2018 and our tax advisors, EY, have given assurance that this will remain the case. However, we will not execute the documentation until the point that HMRC confirmation is finalised. A template minute of agreement is also appended for approval for the files of Scottish Widows/Bank of Scotland.

6. Key issues and conclusions

6.1 The liquidity position remains strong, and we do not anticipate any requirement to borrow externally, other than the remaining £28m from EIB, during the next financial year.

6.2 Deposit rates have fallen to almost zero per cent. Increased diversification across suitable credit-rated, non-lending banks will deliver a moderate return on investment, in preference to placing funds with our lending banks.

6.3 Our covenant position remains robust across our lending agreements, and projected covenant and Golden Rule compliance based on financial planning projections.

6.4 The £15m increase to the investment from GHA to Lowther has been approved and legal documentation is now ready to be executed, pending Board approval and HMRC sign-off.

7. Value for money implications

7.1 Not applicable.

8. Impact on financial projections

8.1 The business plan outlined in the separate Board paper sets out the impact of the £15m on-lend from GHA to Lowther Homes over the next five years.

9. Legal, regulatory and charitable implications

9.1 The security transfer from the bond to the EIB will require input from both external and internal legal counsel. This is a well-established process with Pinsents acting for the Group and Brodies acting for the EIB. The securities will remain within the Security Trust Deed, which is managed by M&G Prudential.

9.2 There are no regulatory or charitable implications.

10. Partnership implications

10.1 None.

11. Implementation and deployment

11.1 No further implications noted.

12. Equalities impact

12.1 Not applicable.

13. Recommendations

13.1 The Board is requested to:

1) note the liquidity position of Wheatley Group as at 31 January 2021;
2) note the position against covenants for quarter-end to 31 Dec 2020; and
3) approve the amended legal documentation and associated minute of agreement for the £15m increase to the on-lend from GHA to Lowther Homes.

<u>List of Appendices</u>

Appendix 1 – Wheatley Group Treasury pack [redacted]
Appendix 2 – Amended Intra-Group Agreement (GHA & Lowther) [redacted]
Appendix 3 – Amended Subordination Agreement [redacted]
Appendix 4 – Amendment to WFL2 / Lowther's loan agreement with Scottish Widows [redacted]
Appendix 5 - Legal template minutes [redacted]

Wheatley Group

Report

To: Wheatley Housing Group Board

By: Steven Henderson, Group Director of Finance

Approved by: Martin Armstrong, Group Chief Executive

Subject: Governance update

Date of Meeting: 24 February 2020

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1. Purpose

1.1 To update the Board and seeks approval as appropriate on the following governance related matters:

1. DGHP Governance
2. DGHP-Wheatley Solutions
3. Wheatley Enterprises and YourPlace wind up
4. Chair succession
5. Board reporting template

2. Authorising context

2.1 Under the Group Standing Orders ("GSOs") the Group Board is responsible for approving the establishment and dissolution of subsidiaries. This would ordinarily be based on the basis of a report or advice from the Group Remuneration, Appointments, Appraisals and Governance Committee, however in this instance the timing is such that this has not been practically possible.

2.2 The Intra Group Agreement ("IGA") between Wheatley Housing Group (as group parent) and Dumfries and Galloway Housing Partnership states the intention that the "*primary central service and corporate service provider to the Group shall be Wheatley Solutions Limited*."

2.3 Where Wheatley Solutions are the service provider, the IGA sets out that the parties shall enter into a Services Agreement which set out the agreed services to be provided, any relevant performance standards, quality considerations, term of the agreement and pricing. As Wheatley Solutions provide the service on the Group's behalf, Wheatley Housing Group Limited is also a part to the Services Agreement.

2.4 The formal appointment of the Group Chair is also reserved to the Group Board. The Board approved the process for identifying a successor to the Group Chair at its last meeting.

2.5 As part of our wider governance framework, the Board is responsible for approving the standard Board reporting template.

3. Risk Appetite and assessment

3.1 Our risk appetite in relation to governance is "cautious", which is defined as a "preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward".

3.2 We mitigate risk be reserving governance related matters to the Group Board and consistently engaging external independent expertise and legal advisors where appropriate.

4. Background

4.1 The Board has previously approved the DGHP Transformation Programme and our succession planning arrangements. Following the Board's approval, we have been progressing the necessary action to effect the Board's decisions.

5. Discussion

<u>DGHP Governance</u>

5.1 As part of the DGHP Transformation Programme, Leadership stream, it was agreed that we would:

"Explore respective roles of DGHP3, Novantie, Lowther and Wheatley Solutions to ensure maximum strategic and operational synergies"

5.2 In consultation with senior staff in DGHP, Wheatley Group and Lowther Homes we evaluated the potential for synergies. These were considered by the DGHP Board at its meeting on 17 February and they agreed to recommend the following:

Novantie/Lowther Homes

5.3 [paragraphs 5.3-5.11 redacted]

DGHP 3

5.12 DGHP 3 is part of our Group, but not our VAT Group. This allows VAT savings to be made on new build developments by permitting VAT recovery on fees incurred by DGHP3 (such as architects' fees), by virtue of the fact it is able to sell on zero-rated new build homes to DGHP. If these fees were incurred by DGHP directly, or if DGHP3 were in the same VAT group as DGHP, then the main supply for VAT purposes is exempt rental income, meaning no VAT could be reclaimed.

5.13 HMRC is currently consulting on mandating VAT grouping for all legal groups, which could remove any VAT advantage and by extension undermine the purpose of DGHP3. We will therefore await the outcome of the consultation and advise the Board of the implications in due course.

Intragroup appointments

5.14 DGHP drawn Non-Executive Directors have now taken up places on the Wheatley Solutions and Foundation Boards as well as the Group Audit and Development Committees. This was a specific commitment to DGHP as part of the partnership proposal.

<u>DGHP-Wheatley Solutions</u>

5.15 We have now formally agreed with the Wheatley Solutions and DGHP Boards that Wheatley Solutions will provide all corporate services to DGHP from 1 April. As with the governance arrangements, this bring DGHP under the same approach as the wider Group.

5.16 The basis of this agreement is a formal Services Agreement amongst DGHP, Wheatley Solutions and Wheatley Housing Group Limited. This is the overarching legal framework under which day to day responsibility for the provision of support services is transferred to Solutions. It also covers matters such as: warrants and indemnities; obligations on Wheatley Solutions, such as having appropriately skilled staff; data protection obligations; and liability and termination provisions.

5.17 This is a formal Scottish Housing Regulator statutory guidance for Group Structures and Constitutional Partnerships where there are intragroup services provided. On this basis, we commissioned Harper Macleod to undertake an independent legal review the agreement on behalf of DGHP (as an RSL). They provided some minor updates and confirmed their opinion that

'*the terms of draft services agreement meets the Scottish Housing Regulator's requirements in relation to RSLs in group structures'*.

5.18 Both Boards reviewed and provided feedback on the Services Agreement, with both Boards delegating authority to their respective Chairs to agree the final form which reflects both Boards feedback.

5.19 As we are only a party to the agreement as the Parent and that it has been thoroughly reviewed by the Wheatley Solutions and DGHP Boards is proposed that the Group Chief Executive is delegated authority to review the final Services Agreement and agree the terms on the Company's behalf and to the Group Director of Finance to act as an authorised signatory.

5.20 The detailed scrutiny and feedback from the DGHP and Wheatley Solutions Board has provided us with a strengthened Services Agreement. Our legal advice gives us independent assurance it supports our compliance with the SHR statutory guidance, which supports our Annual Assurance Statement for this year. On this basis, it is intended that the new Services Agreement be a template to be replicated across the Group.

Wheatley Enterprises/YourPlace wind up

5.21 Following the transfer of YourPlace Property Management's ("YourPlace") business to Lowther Homes, we are now progressing with the wind up of Wheatley Enterprise Limited ("WEL") and YourPlace Property Management.

5.22 WEL is a wholly owned subsidiary of Wheatley Housing Group and is a dormant company. WEL holds a fixed and a floating security charge over the assets of YourPlace. These charges were put in place in October 2018 and were granted to Bank of Scotland PLC as Security Trustee to the WFL2 facility agreement in relation to the Bank of Scotland/Scottish Widows £76.5m refinancing process. WEL is defined as a Guarantor under the WFL2 facility agreement, with these charges acting as security to the lender.

5.23 Following the transfer of YourPlace into Lowther Homes Limited in November 2020, the security charges are now redundant, and are in the process of being discharged.

5.24 The guarantee provided by WEL is therefore no longer of value to the Bank of Scotland/Scottish Widows, and the lenders have agreed to the removal of WEL as a Guarantor.

5.25 The formal legal process to enact the resignation of WEL is set out in a Deed of Release, included in Appendix 1. This document has been prepared by the Group's banking lawyers, Pinsent Masons and has been agreed with Bank of Scotland as Security Trustee to the WFL2 facility agreement, and their lawyers, Brodies.

5.26 The Board of WEL will require to formally agree this Deed of Release on the basis of a formal legal minute and Officer Certificate, attached for information at Appendix 2 and 3.

5.27 Following the agreement of this by the WEL Board, it is proposed we formally initiate the process to wind up WEL and YourPlace. The wind up of YourPlace has been in abeyance until the discharge of the security charges were agreed by our funders and WEL.

5.28 In order to effect the wind ups, delegated authority is proposed for the Group Chief Executive, Group Director of Finance and Group Company Secretary to agree and execute any documents on the Company's behalf. External legal advice will be sought before any documents is agreed and executive.

Chair succession

5.29 Following the closing date, the Cahir of the recruitment panel received two applications for the Group Chair role. The Panel is now progressing the process, with independent support from James Tickell, agreed by the Board. Both candidates have been invited to the formal interview stage, which is scheduled for March, with a formal recommendation to be made to the Board at its April meeting.

Board reporting template

5.30 We have received feedback on the template from a number of our Boards. In particular, how we reflect the focus in our strategy on environmental and sustainability (including climate change) in our Board reporting. It is therefore proposed that we add an additional section to cover 'Environmental and sustainability implications' within the template to increase its visibility and prominence.

6. Key issues and conclusions

6.1 The report confirms significant steps being taken within DGHP in progressing its Transformation Programme. The enhanced integration with the Group will reduce the complexity and risk associated with out governance arrangements. It will also allow DGHP factored homeowners, Mid-Market Rent tenants and commercial property leases to benefit from the skills, expertise and experience within Lowther Homes.

6.2 The consolidation of our activity will also further consolidate our group structure, reducing its complexity and risk. Combined with the Barony and Cube changes, the proposals will see our 'washing line' having reduced by 5 within 12 months.

7. Value for money implications

7.1 There are no value for money implications arising from this report.

8. Impact on financial projections

8.1 The financial implications are set out with the respective business plans, which are subject to a separate item.

9. Legal, regulatory and charitable implications

9.1 Under the Scottish Housing Regulator statutory guidance for Group Structures and Constitutional Partnerships where there are intragroup services provided:

The group must set out service provision between group members in written service level agreements or contracts, with clear costs and charges, and review them regularly

9.2 The combination of the Services Agreement and business plan recharge arrangement allow us to comply with this requirement, as confirmed by the independent legal advice to DGHP. The documents will have legal effect when executed.

9.3 As indicated in the report, we have and will continue to engage our external legal advisors in relation to the steps to wind up entities.

10. Partnership implications

10.1 There are no partnership implications associated with this report.

11. Implementation and deployment

11.1 The implementation and deployment of the process is set out in the body of the report.

12. Equalities impact

12.1 As part of the secondment arrangements between DGHP and Wheatley Solutions and Lowther Homes a review will be undertaken in relation to term and conditions.

13. Recommendations

13.1 The Board is asked to:

1) Note the progress with the governance elements of the DGHP Transformation Programme;
2) Agree that, as part of the DGHP governance integration, Novantie Limited be wound up;
3) Delegate authority to the Group Chief Executive to agree the Services Agreement with Wheatley Solutions and DGHP on behalf of the company;
4) Subject to the above, approve the Group Director of Finance as an Authorised Signatory of the Services Agreement;
5) Agree the wind up of Wheatley Enterprises Limited and YourPlace Property Management Limited;
6) Delegate authority to any of the Group Chief Executive, Group Director of Finance and Group Company Secretary to agree and execute any documents on the Company's behalf to wind up of Wheatley Enterprises Limited and YourPlace Property Management Limited;
7) Note the update on the Group Chair succession planning; and
8) Agree we add a 'Environmental and sustainability implications' section to the Board reporting template.

List of Appendices

Appendix 1.	Deed of Release	[redacted]
Appendix 2.	Board Minute	[redacted]
Appendix 3.	Officers' Certificate	[redacted]